Government of the United States Virgin Islands

Management's Discussion
and Analysis, Financial Statements
(with Independent Auditor's Report Thereon)
and Required Supplementary Information
Year Ended September 30, 2017

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Independent Auditor's Report

To the Honorable Governor
of the Government of the United States Virgin Islands

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following funds and/or component units:

- The Virgin Islands Housing Authority (VIHA), Virgin Islands Economic Development Authority (VIEDA), Virgin Islands Waste Management Authority (VIWMA), Magens Bay Authority (MBA), Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Governor Juan F. Luis Hospital and Medical Center), and the Virgin Islands Housing Finance Authority (VIHFA), discretely-presented component units, which collectively represent 30.2%, (45.5%), and 37.7%, respectively, of the assets, net position (deficit), and revenues of the Aggregate Discretely-Presented Component Units.

- The Virgin Islands Lottery (V.I. Lottery), a nonmajor enterprise fund, which represents 1.1% and 5.6%, respectively, of the assets and revenues of the Aggregate Remaining Fund Information, and 6.9% and 26.6%, respectively, of the assets and revenues of the Business-Type Activities.

- The Employees' Retirement System of the Government of the Virgin Islands (GERS), a fiduciary component unit (pension trust fund), which represents 84.6%, 93.6%, and 63.1%, respectively, of the assets, net position/fund balance, and revenues/additions of the Aggregate Remaining Fund Information.

- The West Indian Company Limited (WICO) and Virgin Islands Next Generation Network (viNGN), as owned by the Government through the Virgin Islands Public Finance Authority, which represent 100% of the assets, net position, and revenues of the respective major enterprise funds, and 73.5%, 51.8%, and 19.3%, respectively, of the assets, net position, and revenues of the Business-Type Activities.

- The Tobacco Settlement Financing Corporation (TSFC), a blended component unit which represents 1.2% and 0.4%, respectively, of the assets and revenues of the Aggregate Remaining Fund Information, and 0.5% and 0.1%, respectively, of the assets and revenues of the Governmental Activities.

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the activities, funds and component units indicated above, are based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Virgin Islands Government Hospital and Health Facilities Corporation (Governor Juan F. Luis Hospital and Medical Center) were not audited in accordance with *Government Auditing Standards*.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Business-Type Activities, Unemployment Insurance-Enterprise Fund, and the Aggregate Remaining Fund Information.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Except for the matters described in the Basis for Disclaimer of Opinion on the Business-Type Activities, Unemployment Insurance-Enterprise Fund, and the Aggregate Remaining Fund Information paragraphs, we believe that the audit evidence we and other auditors have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Business-Type Activities	Disclaimer
General Fund	Qualified
Debt Service Fund	Unmodified
Capital Projects Fund	Unmodified
Federal Grants Fund	Qualified
West Indian Company-Enterprise Fund	Unmodified
Unemployment Insurance-Enterprise Fund	Disclaimer
viNGN-Enterprise Fund	Unmodified
Aggregate Remaining Fund Information	Disclaimer
Aggregate Discretely Presented Component Units	Qualified

Basis for Qualified Opinion on Governmental Activities

The Government did not maintain the requisite documentation to support its accrued retroactive liability as of and for the year ended September 30, 2017. As such, we are unable to determine whether adjustments were required in the Governmental Activities.

The Government's notes to the basic financial statements do not include the necessary information under Governmental Accounting Standards Board, Statement No. 77, *Tax Abatement Disclosures*. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on Governmental Activities, General Fund, and Federal Grants Fund

The Government did not maintain the requisite documentation to support its determination as to the sufficiency of the design and operation of key controls surrounding the environment in which Medicaid claims are processed. As such, we were unable to determine whether adjustments were required in the General Fund and in the Governmental Activities.

The Government did not maintain the requisite documentation to support its due from federal government and federal grants and contributions revenues in the amount of $12.3 million as of the year ended September 30, 2017. As a result, we were unable to obtain sufficient audit evidence to determine whether adjustments were required in the Federal Grants Fund and in the Governmental Activities.

Basis for Qualified Opinion on Aggregate Discretely Presented Component Units

The financial statements of the University of the Virgin Islands Research and Technology Park Corporation (RTPark), have not been audited, and we were not engaged to audit RTPark's financial statements as part of our audit of the Government's basic financial statements. RTPark's financial activities are included in the Government's basic financial statements as discretely-presented component units and represent 0.8%, 5.8%, and 1.1% of the assets, net position, and revenues, respectively, of the Aggregate Discretely Presented Component Units.

The reports of other auditors on the 2017 financial statements of MBA, a discretely presented component unit, was qualified because MBA does not report net pension liability, pension expense as actuarially determined, and related deferred inflows and outflows of resources, if any, in accordance with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, based on our audit and the reports of other auditors, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs above, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities, General Fund, Federal Grants Fund and the Aggregate Discretely Presented Component Units of the Government of the United States Virgin Islands as of September 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Disclaimer of Opinion on Business-Type Activities and on Aggregate Remaining Fund Information

The basic financial statements do not include a liability for medical malpractice claims in the reciprocal insurance fund (a non-major enterprise fund) and, accordingly, the Government has not recorded an expense for the current period change in that liability. The Government's records do not permit it, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the Business-Type Activities and Aggregate Remaining Fund Information as of and for the year ended September 30, 2017, may have been affected by this condition.

The report of other auditors on the 2017 financial statements of GERS, a fiduciary component unit (pension trust fund), was qualified because of a lack of updated values for certain investment properties. The values are based in part on the future income generation capacity of the properties and these values have not been updated to incorporate the impact of the September 2017 hurricanes.

Basis for Disclaimer of Opinion on Unemployment Insurance-Enterprise Fund and on Business-Type Activities

The Government's records were not available or contained incomplete information. As such, the records do not permit it, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the Unemployment Insurance-Enterprise Fund and Business-Type Activities as of and for the year ended September 30, 2017, may have been affected by this condition.

Disclaimer of Opinion

Because of the significance of the matters discussed in the Basis for Disclaimer Opinion paragraphs above, we and other auditors have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Business-Type Activities, the Unemployment Insurance-Enterprise Fund, and on the Aggregate Remaining Fund Information of the Government of the United States Virgin Islands. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, other than the General Fund, Federal Grants Fund, and Unemployment Insurance-Enterprise Fund of the Government of the United States Virgin Islands as of September 30, 2017, and the respective changes in financial position and, where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the Government will continue as a going concern. As discussed in Note 16 to the financial statements, the Government reported an unrestricted net deficit in Governmental Activities and in the General Fund. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 16. These financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion, based on our audit and the reports of other auditors, is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of funding progress, net pension liability, contributions, and revenue and expenditures – budget and actual budgetary basis – General Fund on pages 9 through 19 and 128 through 133, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2019, on our consideration of the Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Government's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Government's internal control over financial reporting and compliance.

BDO USA, LLP

September 30, 2019

Management's Discussion and Analysis

Introduction

The following management's discussion and analysis presents an overview of the financial position and activities of the Government of the United States Virgin Islands (the Government) as of and for the fiscal years ended September 30, 2017 and 2016.

Government-wide Financial Statements

The government-wide financial statements are designed to present an overall picture of the financial position of the Government. These statements consist of the statement of net position and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that current year's revenues and expenses are included regardless of when cash is received or paid, producing a view of financial position and changes in financial position similar to that presented by most private-sector companies.

The statement of net position combines and consolidates the Government's current financial resources with capital assets and long-term obligations.

Both of the above-mentioned financial statements have separate sections for three different types of the Government programs or activities. These three types of activities are as follows:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with the primary government fall into this category, including general government, public safety, health, public housing and welfare, education, transportation and communication, and culture and recreation.

Business-Type Activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the Government include the operations of the: (i) the West Indian Company (WICO); (ii) the unemployment insurance program; and (iii) viNGN, Inc. dba Virgin Islands Next Generation Network (viNGN). These programs operate with minimal assistance from the governmental activities of the Government.

Discretely Presented Component Units – These are operations for which the Government has financial accountability even though they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The Government's discretely presented component units are presented in two categories, major and nonmajor. This separation is determined by the relative size of the entities' assets, liabilities, revenue, and expenses in relation to the total of all component units.

Fund Financial Statements

Fund financial statements focus on the most significant (or major) funds of the Government. A fund is a separate accounting entity with a self-balancing set of accounts. The Government uses funds to keep track of sources of funding and spending related to specific activities. The Government uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

A major fund is a fund whose revenues, expenditures or expenses, assets, or liabilities (excluding extraordinary items) are at least 10% of the corresponding totals for all governmental or enterprise funds and at least 5% of the aggregate amount for all governmental and enterprise funds for the same item. The general fund is always considered a major fund. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the Government believes is particularly important to the financial statements may be reported as a major fund.

All of the funds of the Government are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental funds’ statements provide a detailed short-term view of the general governmental operations and the basic services provided. The reconciliation following the fund financial statements explains the differences between the governmental activities, reported in the government-wide financial statements and the governmental funds’ financial statements. The General Fund, the PFA debt service fund, the PFA capital projects fund and the Federal grants fund are reported as major governmental funds.

> The General Fund is the Government’s primary operating fund. It accounts for all financial resources of the Government, except those required to be accounted for in another fund.
>
> The PFA debt service fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by the Virgin Islands Public Finance Authority on behalf of the Government.
>
> The PFA capital projects fund accounts for bond proceeds of debt issued by the Virgin Islands Public Finance Authority on behalf of the Government. The bond proceeds have been designated for certain necessary public safety and capital development projects which are accounted for in this fund.
>
> The Federal grants fund accounts for proceeds and federal payments that are legally restricted for expenditures for federally specified purposes.

The governmental fund activities are reported in a separate balance sheet and statement of revenues, expenditures, and changes in fund balances. Additionally, the Government presents a reconciliation of the statement of revenues, expenditures, and change in fund balances, to the statement of activities.

Proprietary Funds

Services provided to outside (nongovernmental) customers are reported in enterprise funds. Enterprise funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements.

The West Indian Company (WICO), the Unemployment Insurance Fund, and viNGN are major proprietary funds.

The WICO fund accounts for the activities of WICO, which owns a port facility including a cruise ship pier and manages a shopping mall complex on the island of St. Thomas.

The Unemployment Insurance Fund is a federally mandated program to manage unemployment insurance.

The viNGN fund accounts for the activities of viNGN, which designs, develops and manages a middle mile wholesale fiber optic network in order to make available reliable high-speed internet connections to retail internet service providers.

The proprietary fund activities are reported in a separate statement of net position, statement of revenues, expenses, and changes in net position and statement of cash flows.

Fiduciary Funds

The fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position.

Financial Analysis of the Government as a Whole

The Government faces the challenge of maintaining fiscal sustainability, promoting economic growth and rebuilding infrastructure following two Category 5 hurricanes in September 2017. To promote fiscal sustainability, the Government retained an international firm to develop short and long-range cash management strategies, identify federal recovery grants, implement a recovery website and assist with federal reporting of recovery grants. The Government has also retained the services of another international firm to lead the reconstruction effort in the Virgin Islands and provide oversight of FEMA Hazard Mitigation and HUD Community Disaster grants. In the first progress report following the hurricanes, the estimated federal recovery funding for the Virgin Islands amounted to $8.0 billion. This funding will be received over a five-year period.

The Government has initiated outreach programs to promote environmentally safe industries and to attract investors. During fiscal year 2017, the Government began negotiations with Limetree Bay Refining, an affiliate of Limetree Bay Terminals, LLC (Limetree) to restart oil refining on the island of St. Croix. These negotiations resulted in a December 2018 agreement with Limetree to invest $1.3 billion in the St. Croix facility, along with the purchase of land and housing units near the oil terminal and a closing payment to the Government of $70.0 million.

On October 6, 2016, PFA issued the Series 2016A Subordinate Lien Revenue Notes (Series 2016A-1 and Series 2016A-2 Notes) in the amount of $10.0 million to: (i) acquire first responder vehicles and related equipment; (ii) contract for professional services to improve public safety in the Territory; and (iii) to pay certain costs of issuance. As of September 30, 2017, the Government had drawn $8.1 million of the Series 2016A-1 Notes and $1.3 million of the Series 2016A-2 Notes.

The Series 2016 Notes are to be repaid monthly over a 60-month period at an interest rate of 375 basis points above the LIBOR rate of 4.62%. The Government has pledged gross receipts taxes for the timely payment of the Notes.

On November 16, 2016, PFA issued the Series 2014E-4 Subordinate Lien Revenue Anticipation Note (Series 2014E-4 Note) amounting to $20.0 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2014 E-4 Note. The Series 2014E-4 Note bears interest at 6.0% and was issued to: (i) finance certain operating expenses of the Government; and (ii) fund certain costs of issuing the Series 2014E-4 Note. On January 2, 2018, PFA entered into the Series 2014E Fourth Omnibus Agreement converting the Series 2014E-4 Note into a term loan (the Series 2014 E Gross Receipts Taxes Loan Note) is to be repaid in twelve (12) monthly installments beginning January 10, 2018 with principal payments of $1.7 million plus interest at prime plus 2.5%.

Financial Analysis of the Primary Government

Total assets and deferred outflows of resources of the Government as of September 30, 2017 and 2016, were approximately $2.8 billion for both years. Total liabilities and deferred inflows were approximately $7.2 billion and $6.5 billion, respectively, over the same period.

As of September 30, 2017, the Government's net position was a deficit of $4.5 billion consisting of $146.6 million investment in capital assets, net of related debt; $268.2 million restricted by statute or other legal requirements that were not available to finance day-to-day operations; and an unrestricted net deficit of $4.9 billion. As of September 30, 2016, the Government's net deficit of $3.7 billion consisting of $349.0 million invested in capital assets, net of related debt; $265.0 million restricted by statute or other legal requirements that were not available to finance day-to-day operations; and an unrestricted net deficit of $4.4 billion.

For the fiscal year ended September 30, 2017, the primary government earned program and general revenue amounting to $1.3 billion and reported expenses of $2.0 billion, including hurricane losses of $227.3 million resulting in an increase in net deficit of approximately $747.4 million. For the fiscal year ended September 30, 2016, the primary government earned program and general revenue amounting to $1.6 billion and reported expenses of $1.6 billion, resulting in a decrease in net deficit of approximately $2.9 million.

Overall, revenue decreased in fiscal 2017 by approximately $339.0 million, when compared to fiscal 2016, mainly due to the one-time payment received in 2016 from the operating agreement with Limetree amounting to $283.8 million and decreases in tax revenues in fiscal 2017 of $53.0 million. Overall expenses increased in fiscal 2017 by $411.3 million when compared to fiscal 2016, mainly due to hurricane impairment losses to assets of $227.3 million, increases in general government expenses of $194.8 million, and increases in public health expense of $52.6 million. The increase in general government expenses was mainly due to increases in other post-employee benefits of $120.2 million, pension expense of $30.4 million, and depreciation of $17.4 million. The increases in expense were offset by decreases in education expense of $27.6 million, decreases in unemployment insurance expense of $5.8 million, decreases in public housing and welfare expense of $10.5 million, decreases in public safety expense of $5.3 million, decreases in transportation expense of $4.9 million and a decrease in interest on long-term debt expense of $4.0 million.

A summary of net position and changes in net position for the primary government follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Total	
September 30,	**2017**	2016	**2017**	2016	**2017**	2016
Assets and Deferred Outflows						
Current assets	**$ 956,041**	$ 1,003,546	**$ 41,990**	$ 34,282	**$ 998,031**	$ 1,037,828
Internal balances	**46,447**	45,744	**(46,447)**	(45,744)	**-**	-
Capital assets	**643,215**	849,253	**132,927**	128,821	**776,142**	978,074
Other assets	**4,573**	4,607	**975**	1,101	**5,548**	5,708
Deferred outflows of resources	**985,758**	780,352	**-**	-	**985,758**	780,352
Total assets and deferred outflows	**2,636,034**	2,683,502	**129,445**	118,460	**2,765,479**	2,801,962
Liabilities and Deferred Inflows						
Long-term liabilities	**6,298,084**	5,772,152	**79,523**	69,148	**6,377,607**	5,841,300
Other liabilities	**775,523**	606,879	**89,937**	88,620	**865,460**	695,499
Deferred inflows of resources	**6,027**	1,387	**-**	-	**6,027**	1,387
Total liabilities and deferred inflows	**7,079,634**	6,380,418	**169,460**	157,768	**7,249,094**	6,538,186
Net Position						
Net investment in capital assets	**93,180**	292,722	**53,457**	56,407	**146,637**	349,129
Restricted	**260,321**	257,932	**7,862**	7,018	**268,183**	264,950
Unrestricted deficit	**(4,797,101)**	(4,247,570)	**(101,334)**	(102,733)	**(4,898,435)**	(4,350,303)
Total net deficit	**$ (4,443,600)**	**$ (3,696,916)**	**$ (40,015)**	$ (39,308)	**$ (4,483,615)**	$ (3,736,224)

	Governmental Activities		Business-Type Activities		Total	
September 30,	**2017**	2016	**2017**	2016	**2017**	2016
Revenues						
Program revenue:						
Charges for services	**$ 25,296**	$ 25,426	**$ 62,471**	$ 61,030	**$ 87,767**	$ 86,456
Operating grants and contributions	**256,390**	251,213	**236**	222	**256,626**	251,435
Capital grants and contributions	**20,405**	19,218	**-**	-	**20,405**	19,218
General revenue:						
Taxes	**845,242**	898,199	**-**	-	**845,242**	898,199
Interest and other	**60,661**	74,047	**5,110**	8,531	**65,771**	82,578
Payment in lieu of taxes	**8,975**	283,780	**-**	-	**8,975**	283,780
Contribution	**-**	1,100	**-**	-	**-**	1,100
Tobacco settlement rights	**1,201**	2,213	**-**	-	**1,201**	2,213
Total revenues	**1,218,170**	1,555,196	**67,817**	69,783	**1,285,987**	1,624,979
Expenses						
General government	**879,538**	684,735	**-**	-	**879,538**	684,735
Public safety	**89,537**	94,806	**-**	-	**89,537**	94,806
Health	**136,435**	83,852	**-**	-	**136,435**	83,852
Public housing and welfare	**216,628**	227,133	**-**	-	**216,628**	227,133
Education	**246,621**	274,187	**-**	-	**246,621**	274,187
Transportation and communication	**57,608**	62,478	**-**	-	**57,608**	62,478
Culture and recreation	**12,423**	11,253	**-**	-	**12,423**	11,253
Interest on long-term debt	**104,542**	108,497	**-**	-	**104,542**	108,497
Unemployment insurance	**-**	-	**1,278**	7,063	**1,278**	7,063
West Indian Company	**-**	-	**11,625**	11,951	**11,625**	11,951
viNGN	**-**	-	**8,382**	8,902	**8,382**	8,902
Other	**-**	-	**41,477**	47,220	**41,477**	47,200
Total expenses	**1,743,332**	1,546,941	**62,762**	75,136	**1,806,094**	1,622,077
Changes in net position (deficit) before transfers and special item	**(525,162)**	8,255	**5,055**	(5,353)	**(520,107)**	2,902
Transfers	**(300)**	(1,300)	**300**	1,300	**-**	-
Impairment loss on capital assets	**(221,222)**	-	**(6,062)**	-	**(227,284)**	-
Changes in net position (deficit)	**(746,684)**	6,955	**(707)**	(4,053)	**(747,391)**	2,902
Net deficit, beginning of year	**(3,696,916)**	(3,703,871)	**(39,308)**	(35,255)	**(3,736,224)**	(3,739,126)
Net deficit, end of year	**$ (4,443,600)**	$ (3,696,916)	**$ (40,015)**	$ (39,308)	**$ (4,483,615)**	$ (3,736,224)

The Virgin Islands Office of Management and Budget prepares an annual executive budget subject to approval by the Governor and the Legislature of the Virgin Islands. The executive budget is prepared on a budgetary basis similar to the cash basis of accounting. The executive budget includes only those funds that are subject to appropriation by law. More information regarding budgetary procedures is provided in the Required Supplementary Information accompanying the basic financial statements.

A summary of the budgetary report for the General Fund of the Government, included on page 131 of the financial statements, follows (expressed in thousands):

September 30, 2017	Original Budget	Amended Budget	Actual	Variance
Total revenues	$ 850,142	$ 850,142	$ 600,836	$ (249,306)
Total expenditures	982,868	973,868	856,029	117,839
(Deficiency) excess of revenues over expenditures	(132,726)	(123,726)	(255,193)	(131,467)
Other financing sources (uses), net	171,331	171,331	125,694	(45,637)
Excess (deficiency) of revenues and net other financing sources over expenditures	$ 38,605	$ 47,605	$ (129,499)	$ (177,104)

For fiscal year 2017, the General Fund realized an unfavorable budgetary variance of $177.1 million mainly due to a deficiency of revenues over expenditures of $131.5 million offset by a decrease in other financing sources of $45.6 million.

Other financing sources increased mainly due to the issuance of the Series 2014 E Notes amounting to $20.0 million and transfers from other funds of $42.5 million. The General Fund realized an unfavorable revenue variance of $249.3 million mainly due to tax revenues which were under budget by $113.6 million, charges for services which were less than budgeted amounts by $66.7 million, and interest and other revenues which were less than budget by $79.6 million during the fiscal year. The General Fund realized a favorable expenditures variance of $117.8 million due to spending efficiencies in government spending as compared from budgeted amounts.

Capital Assets

Capital assets additions during fiscal year 2017 amounted to $71.8 million for governmental activities and $20.1 million for business-type activities. On September 6, 2017 and September 19, 2017, the U.S. Virgin Islands experienced two Category 5 hurricanes, with significant loss to infrastructure, buildings and equipment. Capital assets impaired by the hurricanes amounted to losses of $221.2 million for governmental activities and $6.1 million for business-type activities.

Capital assets additions during fiscal year 2016 amounted to $92.6 million for governmental activities and $6.2 million for business-type activities.

The Government's capital assets include land, land improvements, buildings, building improvements, machinery and equipment, infrastructure, construction in progress, and intangibles, as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Total	
September 30,	**2017**	2016	**2017**	2016	**2017**	2016
Land and improvements	**$ 235,664**	$ 235,383	**$ 5,526**	$ 5,526	**$ 241,190**	$ 240,909
Building and improvements	**405,244**	541,578	**88,341**	79,506	**493,585**	621,084
Machinery and equipment	**201,049**	197,441	**75,544**	79,135	**276,593**	276,576
Infrastructure	**140,786**	337,595	**-**	-	**140,786**	337,595
Intangible assets	**-**	-	**30,774**	20,974	**30,774**	20,974
Construction in progress	**76,003**	55,645	**4,844**	8,191	**80,847**	63,836
Total capital assets	**1,058,746**	1,367,642	**205,029**	193,332	**1,263,775**	1,560,974
Less accumulated depreciation	**(415,531)**	(518,389)	**(72,102)**	(64,511)	**(487,633)**	(582,900)
Total capital assets, net	**$ 643,215**	$ 849,253	**$ 132,927**	$ 128,821	**$ 776,142**	$ 978,074

Note 10 provides detailed information regarding the capital assets of the primary government and the component units of the Government.

Debt Administration (General Obligation and Revenue Bonds)

The Government issues both general obligation bonds and revenue bonds. The Revised Organic Act [48 U.S.C. Section 1574 (b)(ii)] restricts the principal amount of general obligation debt that the Government may issue to no greater than 10% of the aggregate assessed valuation of taxable real property in the U.S. Virgin Islands. Following is a summary of bonds outstanding as of September 30, 2017, (expressed in thousands):

Bond Issue	Maturity	Rates (%)	Balance
2015 Series Federal Highway Bonds	2033	3.00-5.00	$ 82,080
2014 Series D Revenue Bonds	2033	6.03	5,425
2014 Series C Revenue and Refunding Bonds	2044	4.50-5.00	237,500
2014 Series A Revenue Bonds	2034	5.00	46,600
2013 Series B Revenue Refunding Bonds	2024	3.00 – 5.00	41,045
2013 Series A Revenue Refunding Bonds	2024	5.00 – 5.25	31,470
2012 Series C Revenue Bonds	2042	3.00 – 5.00	29,950
2012 Series A & B Revenue & Refunding Bonds	2032	2.25 – 5.25	181,720
2012 Series A Revenue Bonds	2032	4.00 – 5.00	140,165
2010 Series A & B Revenue Bonds	2029	4.00 – 5.25	388,175
2009 Series A Revenue Bonds (Cruzan)	2039	3.00 – 6.00	34,870
2009 Series A1, A2, B & C Revenue and Refunding Bonds	2039	3.00 – 5.00	287,555
2009 Series A Revenue Bonds (Diageo)	2037	6.00 – 6.75	232,205
2006 Series A Revenue Bonds	2029	3 50 – 5.00	196,590
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 – 7.63	7,290
2001 Series A Tobacco Bonds	2031	4.62 – 5.13	6,180
Total bonds outstanding			1,948,820
Plus (less):			
Bonds premium			51,698
Bonds discount			(2,475)
Bonds accretion			8,013
Net bonds outstanding			$ 2,006,056

Note 11 provides detailed information regarding all bonds of the primary government.

The Government made bond principal payments on outstanding general and special revenue bonds amounting to $75.2 million during fiscal year 2017 and $73.0 million during fiscal year 2016.

On December 2, 2016, Fitch Ratings downgraded the Territory's gross receipts tax bonds to BB from BBB. The rating agency pointed to the Government's use of bond issuances to fund operating needs as the reason for the downgrade. On January 20, 2017, Fitch further downgraded the gross receipts bonds to BB- from BB.

On December 9, 2016, Standard & Poor's Global Ratings (S&P) downgraded the Territory's gross receipts tax bonds to BBB- from B. S&P cited the weak economic conditions in the Territory, declining debt coverage, and the potential that additional debt will further dilute the coverage.

In August 2017, Fitch Ratings downgraded the Government's Matching Fund Revenue and Gross Receipts Tax debt to B from BB-. The Government ceased providing necessary information to S&P in August 2017 to evaluate the Government's liquidity, and in October 2017, S&P withdrew its credit ratings.

In January 2018, Moody's Investor services downgraded the Matching Fund Revenue Bonds as follows: Senior Lien Bonds from Caa1 to Caa2; Subordinate Lien Bonds from Caa2 to Caa3, and Subordinate Indenture Bonds (Diageo and Cruzan) from Caa2 to Caa3.

Other Liabilities of the Primary Government

Other long-term outstanding liabilities of the Government include the following (expressed in thousands):

September 30,	2017	2016
Governmental activities:		
Accrued compensated absences	**$ 36,151**	$ 33,524
Retroactive union arbitration	**195,286**	195,286
Litigation	**16,145**	13,783
Post-employment benefits	**477,438**	357,224
Landfill closure and post closure costs	**97,923**	90,958
Business-type activities:		
Workers compensation	**40,462**	38,459
Total other liabilities	**$ 863,405**	$ 729,234

Net Pension Liabilities

The Government has implemented the provisions of Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* and GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. Following is a description of the pension plan and accounting for pension expense, liabilities, and deferred outflows/inflows of resources.

Following is the net pension liability reported in fiscal years 2017 and 2016 (expressed in thousands):

September 30,	2017	2016
Net pension liability	**$ 3,535,517**	$ 3,065,617

Economic Condition and Outlook

The Government promotes fiscal sustainability through economic development, compliance initiatives, and budgetary restraints on expenditures. The Government is also working with non-governmental organizations and Federal partners as part of its recovery efforts the following the 2017 hurricanes.

Revenue and Compliance Initiatives - The Government has implemented several initiatives to create jobs, stimulate economic growth and promote fiscal sustainability including: continued promotion of tourism through national advertising, increases in local tax rates, compliance initiatives to ensure voluntary tax filing requirements are met, and outreach to national and foreign investors. The Government continues to promote its high-tech broadband capabilities, educated workforce and tax incentive programs to management, technology, and tourism-related industries.

Budgetary Control of Expenditures - The Government has experienced an increase in carry-forward liabilities from prior fiscal years mainly due to landfill closure costs, post-employment benefits for retirees, and net pension liabilities in connection with the Government's defined benefit pension plan. The Government also has carry-forward liabilities due to unpaid retroactive salary increases that accumulated following Hurricanes Hugo, Marilyn, and Bertha in the years of 1990 through 1998.

At September 30, 2017 and 2016, long-term liabilities for pension and other post-employment benefits to retired government employees amounted to $4.0 billion and $3.4 billion, respectively. The Government's defined benefit pension plan was 16.54% and 19.58% funded as of the measurement dates of September 30, 2016 and September 30, 2015, respectively.

Based on actuarial projections, the plan may not be able to meet its responsibilities by fiscal year 2023. A Pension Reform Joint Task Force has provided recommendations to the Legislature to (i) increase the retirement age of Government workers; (ii) restructure plan benefits; and (iii) to no longer allow retirees to both work and collect benefits from the Government.

The retirement system increased the contribution rates of participating employers by 3% and the contribution rates of participants by 1% phased in over the three fiscal years 2015, 2016 and 2017.

Deficit Reduction Measures - In fiscal years 2017 and 2016, the Government reported an unrestricted net deficit of $4.9 billion and $4.4 billion, respectively.

The Government has implemented a number of deficit reducing measures including: (i) withholding of local gross receipts taxes on Government invoice payments; (ii) increasing local taxes such as property tax assessments on time-shares, gross receipts taxes, and hotel taxes; (iii) passage of "sin taxes" on sales of sugary drinks and alcoholic beverages; (iv) exerting greater control of expenditures through the budgetary process; and (iv) increasing collection efforts for amounts due to the Government from taxpayers.

Recovery Grants and Contributions – In the aftermath of the 2017 hurricanes, the Government has partnered with non-profit organizations and the Federal Government to secure long-term funding of approximately $8.0 billion needed to rebuild a sustainable U.S. Virgin Islands.

Contacting the Government's Financial Management

This financial report is designed to provide the Government's citizens, taxpayers, customers, and creditors with a general overview of the Government's finances. If you have questions about this report, or need additional financial information, contact the Government of the United States Virgin Islands, Department of Finance, No. 2314 Kronprindsens Gade, St. Thomas, VI 00802.

Basic Financial Statements

Government of the United States Virgin Islands

Statement of Net Position

(in thousands)

	Primary Government			
September 30, 2017	**Governmental Activities**	**Business-type Activities**	**Total**	**Component Units**
Assets				
Cash and cash equivalents	$ 130,838	$ 21,237	$ 152,075	$ 89,114
Investments, at fair value	605,730	1,655	607,385	28,484
Receivables, net	202,294	11,236	213,530	51,654
Internal balances	46,447	(46,447)	-	-
Due from federal government	12,284	-	12,284	14,760
Due from component units	4,895	-	4,895	5,000
Due from primary government	-	-	–	49,619
Inventories	-	-	–	24,006
Prepayments and other assets	-	-	–	30,038
Restricted:				
Cash and cash equivalents	-	7,862	7,862	95,856
Investments	-	-	-	107,991
Other	-	-	-	20,850
Capital assets, net	643,215	132,927	776,142	1,119,961
Notes receivable	-	-	-	11,837
Other assets	4,573	975	5,548	72,606
Total assets	1,650,276	129,445	1,779,721	1,721,776
Deferred Outflows of Resources				
Deferred amounts related to pension	978,364	-	978,364	309,741
Deferred charges on bond refunding	7,394	-	7,394	5,089
Total deferred outflows of resources	985,758	–	985,758	314,830
Total assets and deferred outflows of resources	$ 2,636,034	$ 129,445	$ 2,765,479	$ 2,036,606

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Net Position

(in thousands)

September 30, 2017	Primary Government Governmental Activities	Business-type Activities	Total	Component Units
Liabilities				
Accounts payable and accrued liabilities	$ 264,638	$ 5,686	$ 270,324	$ 294,662
Tax refunds payable	96,133	-	96,133	-
Unemployment insurance benefits	–	3,257	3,257	-
Customer deposits	–	-	–	29,907
Due to primary government	–	-	–	4,145
Due to component units	23,148	-	23,148	12,013
Due to federal government	–	-	–	4,142
Interest payable	49,088	-	49,088	6,754
Unearned revenues	223,925	10,395	234,320	25,343
Other current liabilities:				
Line of credit	–	-	-	29,628
Loans and notes payable	22,749	67,580	90,329	4,516
Bonds payable	84,588	-	84,588	19,146
Other liabilities	11,254	3,019	14,273	25,176
Noncurrent liabilities:				
Loans and notes payable	29,410	42,080	71,490	84,164
Bonds payable	1,921,468	-	1,921,468	295,040
Net pension liability	3,535,517	-	3,535,517	1,050,979
Other liabilities	811,689	37,443	849,132	244,489
Total liabilities	7,073,607	169,460	7,243,067	2,130,104
Deferred Inflows of Resources				
Deferred amounts related to pension	6,027	-	6,027	63,262
Total liabilities and deferred inflows of resources	$ 7,079,634	$ 169,460	$ 7,249,094	$ 2,193,366
Net Position (Deficit)				
Net investment in capital assets	$ 93,180	$ 53,457	$ 146,637	$ 714,323
Restricted:				
Unemployment insurance	–	5,328	5,328	–
Debt service	260,064	-	260,064	–
Capital projects	257	-	257	–
Other purposes	–	2,534	2,534	201,578
Unrestricted deficit	(4,797,101)	(101,334)	(4,898,435)	(1,072,661)
Total net deficit	$ (4,443,600)	$ (40,015)	$ (4,483,615)	$ (156,760)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Activities

(in thousands)

		Program Revenues			Net Revenue (Expense) and Changes in Net Position			
					Primary Government			
Year Ended September 30, 2017	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
Functions:								
Primary government:								
Governmental activities:								
General government	$ 879,538	$ 21,991	$ 31,451	$ 11,684	$ (814,412)	$ -	$ (814,412)	$ -
Public safety	89,537	384	2,267	-	(86,886)	-	(86,886)	-
Health	136,435	632	21,287	-	(114,516)	-	(114,516)	-
Public housing and welfare	216,628	339	142,305	-	(73,984)	-	(73,984)	-
Education	246,621	520	47,436	-	(198,665)	-	(198,665)	-
Transportation and communication	57,608	507	11,644	8,721	(36,736)	-	(36,736)	-
Culture and recreation	12,423	923	-	-	(11,500)	-	(11,500)	-
Interest on long-term debt	104,542	-	-	-	(104,542)	-	(104,542)	-
Total governmental activities	1,743,332	25,296	256,390	20,405	(1,441,241)	-	(1,441,241)	
Business-type activities:								
West Indian Company	11,625	8,818	-	-	-	(2,807)	(2,807)	-
Unemployment insurance	1,278	15,100	236	-	-	14,058	14,058	-
viNGN	8,382	4,101	-	-	-	(4,281)	(4,281)	-
Other	41,477	34,452	-	-	-	(7,025)	(7,025)	-
Total business-type activities	62,762	62,471	236	-		(55)	(55)	-
Total primary government	$ 1,806,094	$ 87,767	$ 256,626	$ 20,405	$ (1,441,241)	$ (55)	$ (1,441,296)	$ –
Component units:								
Virgin Islands Housing Authority	$ 57,039	$ 4,847	$ 40,865	$ 5,252	$ -	$ -	$ -	$ (6,075)
Virgin Islands Port Authority	79,892	54,345	-	9,944	-	-	-	(15,603)
Virgin Islands Water and Power Authority:								
Electric System	289,883	244,230	-	4,873	-	-	-	(40,780)
Water System	30,676	31,207	-	2,826	-	-	-	3,357
Virgin Islands Government Hospital and Health Facilities Corporation:								
Roy L. Schneider Hospital	92,044	54,765	21,887	-	-	-	-	(15,392)
Juan F. Luis Hospital	86,170	52,044	24,054	-	-	-	-	(10,072)
University of the Virgin Islands	86,065	42,274	24,125	4,992	-	-	-	(14,674)
Other component units	81,058	14,333	47,573	2,789	-	-	-	(16,363)
Total component units	$ 802,827	$ 498,045	$ 158,504	$ 30,676	$ -	$ -	$ -	$ (115,602)
Total primary government and component units					$ (1,441,241)	$ (55)	$ (1,441,296)	$ (115,602)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Activities

(in thousands)

Year Ended September 30, 2017	Net Revenue (Expense) and Changes in Net Position Primary Government Governmental Activities	 Business-type Activities	 Total	 Component Units
General revenue:				
Taxes	$ 845,242	$ -	$ 845,242	$ -
Payment in lieu of taxes	8,975	-	8,975	-
Interest and other	60,661	5,110	65,771	10,970
Tobacco settlement rights	1,201	-	1,201	-
Special item - impairment loss on capital assets, net	(221,222)	(6,062)	(227,284)	(64,265)
Transfers – internal activities of primary government	(300)	300	-	-
Total general revenue and other items	694,557	(652)	693,905	(53,295)
Changes in net position (deficit)	(746,684)	(707)	(747,391)	(168,897)
Net position (deficit), beginning of year, as restated	(3,696,916)	(39,308)	(3,736,224)	12,137
Net deficit, end of year	$ (4,443,600)	$ (40,015)	$ (4,483,615)	$ (156,760)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Balance Sheet - Governmental Funds

(in thousands)

September 30, 2017	General	PFA Debt Service	PFA Capital Projects	Federal Grants	Other Governmental	Total Governmental
Assets						
Cash and cash equivalents	$ -	$ 11,818	$ 22,106	$ -	$ 96,914	$ 130,838
Investments, at fair value	145,966	348,398	106,128	-	5,238	605,730
Receivables:						
Taxes, net	175,761	25,695	-	-	-	201,456
Other	38	-	-	-	122	160
Due from federal government	-	-	-	12,284	-	12,284
Due from:						
Other funds	31,050	-	37,129	-	25,408	93,587
Component units, net	4,145	-	-	-	750	4,895
Total assets	$ 356,960	$ 385,911	$ 165,363	$ 12,284	$ 128,432	$ 1,048,950
Liabilities						
Accounts payable and accrued liabilities	$ 198,418	$ -	$ 24	$ 49,554	$ 16,642	$ 264,638
Tax refunds payable	96,133	-	-	-	-	96,133
Unearned revenues	111,896	108,529	-	-	3,500	223,925
Due to:						
Other funds	23,640	-	-	-	23,500	47,140
Component units	20,885	-	2,259	-	4	23,148
Total liabilities	450,972	108,529	2,283	49,554	43,646	654,984
Deferred Inflow of Resources						
Unavailable revenues	113,829	17,318	-	-	-	131,147
Total liabilities and deferred inflow of resources	564,801	125,847	2,283	49,554	43,646	786,131
Fund balances (deficit)						
Restricted	-	260,064	163,080	34,981	-	458,125
Committed	16,667	-	-	-	22,144	38,811
Assigned	552	-	-	-	118,963	119,515
Unassigned	(225,060)	-	-	(72,251)	(56,321)	(353,632)
Total fund balances (deficit)	(207,841)	260,064	163,080	(37,270)	84,786	262,819
Total liabilities, deferred inflow of resources and fund balances (deficit)	$ 356,960	$ 385,911	$ 165,363	$ 12,284	$ 128,432	

Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	643,215
Expenditures identified as related to a future period are recognized as a prepaid asset in the statement of net position.	4,573
Deferred costs of refunding bonds are not financial resources and are therefore, not reported in the funds.	7,394
Other long-term assets, primarily taxes receivable, will not be available to pay for current period expenditures and therefore, are deferred in the funds.	131,825
Deferred outflows and inflows of resources of pension liabilities are not current financial resources and therefore, are not included in the funds.	972,337
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(49,088)
Long-term pension liabilities are not due and payable in the current period and therefore, are not reported in the funds.	(3,535,517)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	(2,881,158)
Net deficit of governmental activities	$ (4,443,600)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

(in thousands)

Year Ended September 30, 2017	General	PFA Debt Service	PFA Capital Projects	Federal Grants	Other Governmental	Total Governmental
Revenues						
Taxes	$ 562,602	$ 269,226	$ 1,421	$ -	$ 17,074	$ 850,323
Payment in lieu of taxes	8,975	-	-	-	-	8,975
Federal grants and contributions	10,523	7,572	-	242,309	16,391	276,795
Charges for services	12,067	-	-	-	13,229	25,296
Tobacco settlement rights	-	-	-	-	2,141	2,141
Interest and other	25,964	3,824	564	-	30,309	60,661
Total revenues	620,131	280,622	1,985	242,309	79,144	1,224,191
Expenditures						
Current:						
General government	523,812	104	3,523	49,929	40,631	617,999
Public safety	57,169	-	-	1,494	500	59,163
Health	24,534	-	-	21,455	457	46,446
Public housing and welfare	58,495	-	-	138,633	4,423	201,551
Education	170,305	-	-	42,902	3,221	216,428
Transportation and communication	17,425	-	-	5,525	14,145	37,095
Culture and recreation	6,790	-	-	-	66	6,856
Capital outlays	6,297	-	33,373	16,564	15,576	71,810
Debt service:						
Principal	1,862	77,588	1,347	-	1,665	82,462
Interest	1,158	103,304	73	-	392	104,927
Loan issuance costs	433	651	-	-	-	1,084
Total expenditures	868,280	181,647	38,316	276,502	81,076	1,445,821
Excess (deficiency) of revenue over expenditures	(248,149)	98,975	(36,331)	(34,193)	(1,932)	(221,630)
Other financing sources (uses)						
Loans issued	20,000	55	9,430	-	-	29,485
Transfers from other funds	96,848	722	-	-	4,671	102,241
Transfers to other funds	(3,454)	(97,363)	(624)	-	(1,100)	(102,541)
Total other financing sources (uses), net	113,394	(96,586)	8,806	-	3,571	29,185
Net change in fund balances	(134,755)	2,389	(27,525)	(34,193)	1,639	(192,445)
Fund balances (deficit), beginning of year	(73,086)	257,675	190,605	(3,077)	83,147	455,264
Fund balances (deficit), end of year	$ (207,841)	$ 260,064	$ 163,080	$ (37,270)	$ 84,786	$ 262,819

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds

(in thousands)

Year Ended September 30, 2017	
Net change in fund balances – total governmental funds	$ (192,445)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation, impairment loss, and disposals in the current year.	(206,038)
Tax revenue in the statement of activities, which do not provide current financial resources, are not reported as revenue in the funds.	(6,021)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. This is the amount by which debt repayments of $82.5 million exceed the loan proceeds of $29.5 million.	52,977
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the increase in certain liabilities reported in the statement of net position of the previous year increased expenses reported in the statement of activities that do not require the use of current financial resources.	(132,168)
Some expenses reported as prepaid assets in the statement of net position in the current year are recognized as expenses in the following year in the statement of activities.	(34)
Bond premiums and discounts are reported as other financing sources and uses in the governmental funds when the bonds are issued, and are capitalized and amortized in the government-wide financial statements. This amount represents additional net interest expense reported in the statement of activities related to the amortization of premiums, discounts, deferred refunding, and accreted interest on capital appreciation bonds during the current year.	4,057
Certain interest reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This amount represents the increase in interest payable reported in the statement of net position.	1,255
Certain pension expense reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This amount represents the increase in pension liabilities for the allocable share of pension expense reported in statement of net position.	(268,267)
Change in net position of governmental activities	$ (746,684)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Net Position – Proprietary Funds

(in thousands)

	Business-type Activities				
September 30, 2017	**West Indian Company**	**Unemployment Insurance**	**viNGN**	**Other Enterprise**	**Total**
Assets					
Current assets:					
Cash and cash equivalents	$ 2,761	$ 2,565	$ 3,687	$ 12,224	$ 21,237
Investments, at fair value	-	-	-	1,655	1,655
Receivables, net:					
Premiums receivable	-	8,287	-	-	8,287
Other receivables	2,056	-	520	373	2,949
Due from other funds	-	-	-	300	300
Other assets	531	-	372	72	975
Total current assets	5,348	10,852	4,579	14,624	35,403
Noncurrent assets:					
Restricted cash and cash equivalents	2,534	5,328	-	-	7,862
Capital assets	48,209	-	68,832	15,886	132,927
Total noncurrent assets	50,743	5,328	68,832	15,886	140,789
Total assets	$ 56,091	$ 16,180	$ 73,411	$ 30,510	$ 176,192
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities	$ 582	$ -	$ 674	$ 4,430	$ 5,686
Due to other funds	7,350	-	36,805	2,592	46,747
Unemployment insurance benefits	-	3,257	-	-	3,257
Workers compensation	-	-	-	3,019	3,019
Loan payable to U.S. Treasury	-	66,994	-	-	66,994
Unearned revenue	-	-	-	10,395	10,395
Notes payable related to capital assets	586	-	-	-	586
Total current liabilities	8,518	70,251	37,479	20,436	136,684
Noncurrent liabilities:					
Workers compensation	-	-	-	37,443	37,443
Notes payable related to capital assets	42,080	-	-	-	42,080
Total noncurrent liabilities	42,080	-	-	37,443	79,523
Total liabilities	$ 50,598	$ 70,251	$ 37,479	$ 57,879	$ 216,207
Net Position (Deficit)					
Net investment in capital assets	$ 5,543	$ -	$ 32,028	$ 15,886	$ 53,457
Restricted	2,534	5,328	-	-	7,862
Unrestricted (deficit)	(2,584)	(59,399)	3,904	(43,255)	(101,334)
Total net position (deficit)	$ 5,493	$ (54,071)	$ 35,932	$ (27,369)	$ (40,015)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds

(in thousands)

	Business-type Activities				
Year Ended September 30, 2017	**West Indian Company**	**Unemployment Insurance**	**viNGN**	**Other Enterprise**	**Total**
Operating revenues					
Charges for services	$ 8,818	$ 15,100	$ 4,101	$ 34,452	$ 62,471
Operating expenses					
Cost of services	6,396	1,278	3,305	39,606	50,585
Amortization	-	-	800	131	931
Depreciation	2,962	-	4,277	1,740	8,979
Total operating expenses	9,358	1,278	8,382	41,477	60,495
Operating (loss) income	(540)	13,822	(4,281)	(7,025)	1,976
Non-operating revenues (expenses)					
Federal grants	-	236	-	-	236
Interest and other income	157	89	10	4,854	5,110
Interest expense	(2,267)	-	-	-	(2,267)
Total non-operating (expenses) revenues, net	(2,110)	325	10	4,854	3,079
(Loss) income before operating transfers and special item	(2,650)	14,147	(4,271)	(2,171)	5,055
Transfers from other funds	-	-	-	1,000	1,000
Transfers to other funds	(700)	-	-	-	(700)
Impairment loss on capital assets	(1,910)	-	(3,949)	(203)	(6,062)
Change in net position	(5,260)	14,147	(8,220)	(1,374)	(707)
Net position (deficit), beginning of year	10,753	(68,218)	44,152	(25,995)	(39,308)
Net position (deficit), end of year	$ 5,493	$ (54,071)	$ 35,932	$ (27,369)	$ (40,015)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Cash Flows – Proprietary Funds

(in thousands)

	Business-type Activities				
Year Ended September 30, 2017	**West Indian Company**	**Unemployment Insurance**	**viNGN**	**Other Enterprise**	**Total**
Cash flows from operating activities					
Receipts from customers and users	$ 8,761	$ 12,955	$ 4,154	$ 44,454	$ 70,324
Payments to beneficiaries, suppliers, and employees	(7,944)	(7,736)	(2,971)	(37,411)	(56,062)
Net cash provided by operating activities	817	5,219	1,183	7,043	14,262
Cash flows from noncapital financing activities					
Other income	-	89	-	4,854	4,943
Transfer from other funds	-	-	-	1,000	1,000
Federal grants	-	236	-	-	236
Issuance of debt	-	1,493	154	-	1,647
Principal paid on debt issuances, including interest	-	(3,664)	-	-	(3,664)
Net cash (used in) provided by noncapital financing activities	-	(1,846)	154	5,854	4,162
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(8,475)	-	(976)	(10,644)	(20,095)
Disposal of capital assets	-	-	-	16	16
Issuance of debt	11,008	-	-	-	11,008
Principal paid on debt issuances, including interest	(3,630)	-	-	-	(3,630)
Net cash used in capital and related financing activities	(1,097)	-	(976)	(10,628)	(12,701)
Cash flows from investing activities					
Interest on investments	7	-	12	-	19
Purchase of investments	-	-	-	(5)	(5)
Net cash provided by (used in) investing activities	7	-	12	(5)	14
Net (decrease) increase in cash and cash equivalents	(273)	3,373	373	2,264	5,737
Cash and cash equivalents, beginning of year	5,568	4,520	3,314	9,960	23,362
Cash and cash equivalents, end of year	$ 5,295	$ 7,893	$ 3,687	$ 12,224	$ 29,099
Reconciliation of operating (loss) income to net cash provided by operating activities					
Operating (loss) income	$ (540)	$ 13,822	$ (4,281)	$ (7,025)	$ 1,976
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:					
Depreciation and amortization	2,962	-	5,077	1,871	9,910
Other income	148	-	-	-	148
Provision for doubtful accounts	32	-	-	-	32
Loan origination costs	840	-	-	-	840
Change in assets and liabilities:					
Receivables, net	(208)	(2,145)	53	303	(1,997)
Unearned revenue	-	-	-	9,699	9,699
Customer deposits	4	-	-	-	4
Other assets	103	-	(56)	80	127
Accounts payable and accrued liabilities	(2,524)	-	390	264	(1,870)
Unemployment insurance benefits	-	(6,458)	-	-	(6,458)
Workers compensation	-	-	-	2,003	2,003
Due to other funds	-	-	-	(152)	(152)
Net cash provided by operating activities	$ 817	$ 5,219	$ 1,183	$ 7,043	$ 14,262

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Cash Flows – Proprietary Funds

(in thousands)

	Business-type Activities				
Year Ended September 30, 2017	**West Indian Company**	**Unemployment Insurance**	**viNGN**	**Other Enterprise**	**Total**
Reconciliation of cash and cash equivalents to the statement of net position					
Cash and cash equivalents – current	$ 2,761	$ 2,565	$ 3,687	$ 12,224	$ 21,237
Cash and cash equivalents – restricted	2,534	5,328	-	-	7,862
Total cash and cash equivalents, end of year	$ 5,295	$ 7,893	$ 3,687	$ 12,224	$ 29,099
Noncash capital activities					
Impairment loss on capital assets	$ 1,910	$ –	$ 3,949	$ 203	$ 6,062

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Fiduciary Net Position

(in thousands)

September 30, 2017	**Pension Trust**	**Agency**
Assets		
Cash and cash equivalents:		
Unrestricted	$ 132,635	$ 3,440
Restricted	19	-
Investments, at fair value:		
Certificate of deposits	-	2,169
Cash collateral received under securities lending transactions	19,478	-
U.S. Government and agency obligations	14,095	-
Corporate obligations	27,432	-
Common stock - U.S.	108,900	-
Mortgage and asset backed securities	29,923	-
Commingled and mutual funds	294,727	-
Unsettled securities sold	246	-
Investment loans	27,930	-
Real estate investment trust	3,007	-
Limited partnerships	16,804	-
Real estate	79,749	-
Receivables, net:		
Loans and advances	99,783	-
Accrued interest	1,745	-
Other assets	48,420	-
Total assets	$ 904,893	$ 5,609
Liabilities		
Accounts payable and accrued liabilities	$ -	$ 5,609
Benefits in process of payment	611	-
Unsettled securities purchased	686	-
Securities lending collateral	19,478	-
Other liabilities	38,648	-
Total liabilities	59,423	5,609
Net position restricted for pension benefits	$ 845,470	$ -

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Changes in Fiduciary Net Position

(in thousands)

Year Ended September 30, 2017	**Pension Trust**
Additions	
Contributions:	
Employer	$ 84,802
Plan members	47,925
Total contributions	132,727
Investment income:	
Net appreciation of fair value of investments	55,811
Interest, dividends, and other, net	14,444
Real estate – net rental loss	(307)
Total investment income	69,948
Less investment expense	2,546
Investment income, net	67,402
Other income	2,641
Total additions	202,770
Deductions	
Benefits paid	251,845
Refunds of contributions	7,620
Administrative and operational expenses	14,997
Total deductions	274,462
Change in net position	(71,692)
Net position restricted for pension benefits, beginning of year	917,162
Net position restricted for pension benefits, end of year	$ 845,470

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

The Government of the United States Virgin Islands (the Government) is an unincorporated organized territory of the United States of America. The powers of the Government are derived from and set forth in the Revised Organic Act of 1954, as amended. The Government assumes responsibility for public safety, health, public housing and welfare, education, transportation and communication, and culture and recreation.

The accompanying basic financial statements of the Government have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying basic financial statements have been prepared primarily from accounts maintained by the Department of Finance of the Government. Additional data has been derived from reports prepared by other departments, agencies, and public corporations based on independent or subsidiary accounting systems maintained by them.

Financial Reporting Entity

For financial reporting purposes, the Government is a primary government (PG). The PG includes all Government departments, agencies, boards, and organizations that are not legally separate. In addition to the PG, the financial reporting entity includes blended and discretely presented component units. Component units include all legally separate organizations for which the Government's elected officials are financially accountable and organizations for which the nature and significance of their relationship with the PG are such that exclusion would cause the reporting entity's financial statements to be misleading. The criteria used to define financial accountability include: (i) if an organization is fiscally dependent on, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PG, (ii) a government board appointed by a higher level of government, or (iii) a jointly appointed board.

The financial statements of the following component units are included in the financial reporting entity either as blended or as discretely presented component units in accordance with GAAP:

(a) Blended Component Units

The following public benefit corporations, while legally separate from the Government, meet the criteria to be reported as part of the PG because they provide services entirely or almost entirely to the Government:

<u>Virgin Islands Public Finance Authority (PFA)</u>

PFA was created as a public corporation and autonomous governmental instrumentality by Act No. 5365, *the Government Capital Improvement Act of 1988*, with the purpose of aiding the Government in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. Under the enabling legislation, PFA has the power, among other matters, to borrow money and issue bonds and to lend the proceeds of its bonds to the Government or any governmental instrumentality.

The powers of PFA are exercised by a board of directors consisting of the Governor (Chairperson), the Commissioner of Finance, the Director of the Office of Management and Budget, and two representatives of the private sector appointed by the Governor with the advice and consent of the Legislature (the Legislature). PFA activities are blended within the PG and are reported as major funds, except for the PFA Special Revenue Fund and Lonesome Dove Petroleum, Co. (Lonesome Dove), which are included in the other aggregate remaining governmental fund information.

PFA's blended component units, the West Indian Company (WICO) and Virgin Islands Next Generation Network (viNGN) are presented as major proprietary funds while King's Alley Management, Inc. is included in other nonmajor proprietary funds in the Government's basic financial statements.

Tobacco Settlement Financing Corporation (TSFC)

TSFC was created in September 2001 under Act No. 6428 as a separate and independent corporation of the Government to purchase the rights, title, and interest in tobacco settlement litigation awards and to issue revenue bonds supported by the tobacco settlement rights. The responsibility for the operations of TSFC is vested in a board of directors composed of three Government officials appointed by the Governor and two private citizens. The activities of TSFC are limited to activities conducted on behalf of the Government. The TSFC is reported in the other governmental funds.

Complete audited financial statements of the PFA and TSFC blended component units can be obtained directly by contacting their respective administrative offices:

Administrative Offices of Blended Component Units

Virgin Islands Public Finance Authority
5033 Kongens Gade, Government Hill
St. Thomas, VI 00802

Tobacco Settlement Financing Corporation
5033 Kongens Gade, Government Hill
St. Thomas, VI 00802

(b) Discretely Presented Component Units

The following component units, as required by GAAP are discretely presented in the basic financial statements because of the nature of the services they provide and the Government's ability to impose its will.

The component units are reported in a separate column to emphasize that they are legally separate from the PG and governed by separate boards.

Major Component Units

Virgin Islands Housing Authority (VIHA)

VIHA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 903 on June 18, 1962, with the purpose of providing housing for low and moderate-income families residing in the U.S. Virgin Islands. From June 1962 through August 2003, the powers of VIHA were exercised by a board of commissioners consisting of seven members. In August 2003, the U.S. Department of Housing and Urban Development (HUD) determined that because of the severity of compliance violations, VIHA was declared to be in substantial default of its annual contributions contract (ACC) dated July 12, 1996 with HUD. VIHA was placed in receivership and HUD assumed control of all assets, projects, and programs. On May 30, 2014, the HUD receivership ended, and management of VIHA was returned to the board of trustees appointed by the PG. An executive director is appointed by VIHA's Board to manage the day-to-day operations.

Virgin Islands Port Authority (VIPA)

VIPA was created as a body corporate and politic constituting a public corporation and autonomous government instrumentality by Act No. 2375 on December 23, 1968, with the purposes of owning, operating, and managing air and marine terminals. The powers of VIPA are exercised by a board of governors consisting of the Commissioner of Economic Development and Agriculture (Chairperson), the Attorney General, the Commissioner of Public Works, the Director of the Small Business Development Agency, and five other persons appointed by the Governor with the advice and consent of the Legislature.

Virgin Islands Water and Power Authority (WAPA)

WAPA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 1248 on August 13, 1964, with the purpose of operating the water production and electric generation plants in the U.S. Virgin Islands. The powers of WAPA are exercised by a governing board consisting of nine members, all appointed by the Governor with the advice and consent of the Legislature, from which three are heads of cabinet-level executive departments or agencies and six other persons, who are nominated by the Legislature. WAPA is required by its bond resolutions to maintain separate audited financial statements for each system (the Electric and Water Systems).

Virgin Islands Government Hospital and Health Facilities Corporation (VIGHHFC)

VIGHHFC was created by Act No. 6012 on August 23, 1994 and became active on May 1, 1999, with the purpose of providing healthcare services and hospital facilities to the people of the U. S. Virgin Islands. The powers of VIGHHFC are exercised by a board of directors consisting of 15 members as follows: the Director of the Office of Management and Budget, the Commissioner of Finance, and 13 other members appointed by the Governor with the advice and consent of the Legislature. The VIGHHFC is composed of the Roy L. Schneider Hospital located in St. Thomas and the Juan F. Luis Hospital and Medical Center located in St. Croix. Both entities issue separate audited financial statements.

The Roy L. Schneider Hospital's financial statements include its component units: the Myra Keating Smith Community Health Center (Health Center) of St. John and the Charlotte Kimelman Cancer Institute (Cancer Institute) on St. Thomas. The Health Center and Cancer Institute are legally separated organizations for which the Roy L. Schneider Hospital is financially accountable. The Juan F. Luis Hospital and Medical Center's financial statements include its component unit: the Virgin Islands Cardiac Center at the Governor Juan F. Luis Hospital and Medical Center Foundation, Inc. (VICC Foundation). VICC Foundation is a legally separate nonprofit corporation for which the Juan F. Luis Hospital and Medical Center is financially accountable.

University of the Virgin Islands (the University)

The University was organized as an instrumentality of the Government under Act No. 852 on March 16, 1962, in accordance with Section 16(a) of the Revised Organic Act of 1954, as amended. The purpose of the University is the stimulation and utilization of the intellectual resources of the people of the U.S. Virgin Islands and the development of a center of higher education. The powers of the University are exercised by a board of trustees consisting of 17 members as follows: Chairman of the Board of Education, Commissioner of Education, and the President of the University, all serving as members ex-officio, 9 other members appointed by the Governor with the advice and consent of the Legislature, two other members elected by the board of trustees, one representative of the student body, one alumnus of the University, and another representative of the teaching faculty. The University was not organized as a self-sustaining entity and therefore receives substantial financial and other support from the Government.

The University's financial statements include its blended component units: The Foundation for the University of the Virgin Islands and The Reichhold Center Foundation. The Foundation for the University of the Virgin Islands is a nonprofit corporation whose purpose is to assist and support the University in accomplishing its charitable and educational mission. The Reichhold Center Foundation is a nonprofit corporation that supports the arts and provides financial assistance in operating the Reichhold Center for the Arts on the St. Thomas campus of the University.

Other Component Units (Nonmajor)

Virgin Islands Economic Development Authority (EDA)

EDA was created by Act No. 6390 on December 21, 2000, as a body corporate and politic constituting a public corporation and semiautonomous instrumentality of the Government. EDA was created as an umbrella authority to assume, integrate, and unify the functions of the Economic Development Commission, the Small Business Development Agency, the Government Development Bank, and the Virgin Islands Industrial Development Park Corporation. The powers of EDA are exercised by a board of directors consisting of the members of the Virgin Islands Economic Development Commission, the Director of the Virgin Islands' Bureau of Internal Revenue, and five members not employed by the Government, but appointed by the Governor with the advice and consent of the Legislature.

Magens Bay Authority (MBA)

MBA was created as a corporate instrumentality by Act No. 2085 on December 20, 1967, with the purpose of acquiring, improving, and operating parks and beaches. The powers of MBA are exercised by a board of directors consisting of the Governor and six members initially appointed by the Governor.

The board of directors is responsible for the appointment and reappointment of subsequent board members except that the Governor, with the advice and consent of the Legislature may, by appointment, fill any vacancy on the board of directors remaining unfilled for sixty days.

Virgin Islands Housing Finance Authority (VIHFA)

VIHFA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality of the Government by Act No. 4636 on October 20, 1981, with the purpose of stimulating low and moderate-income housing construction and home ownership through the issuance of revenue bonds to obtain funds to be used for low-interest mortgage loans to qualified purchasers of low and moderate-income housing. On October 31, 2008, VIHFA established the Virgin Islands Housing Management, Inc. (VIHM), a wholly-owned nonprofit subsidiary that manages VIHFA's rental properties. The financial statements of VIHM are separately issued, and not blended into the PG. The powers of VIHFA are exercised by a board of directors consisting of the Commissioner of the Department of Housing, Parks, and Recreation (the Chairman), the Director of the Office of Management and Budget, and three persons not employed by the Government appointed by the Governor with advice and consent of the Legislature.

Virgin Islands Public Broadcasting System (VIPBS)

VIPBS was created as a body corporate and politic constituting a public corporation and autonomous instrumentality by Act No. 2364 on November 15, 1968, with the purpose of advancing the general welfare, education, cultural development, and awareness of public affairs of the population of the U.S. Virgin Islands as well as to provide an effective supplement to the in-school education of children.

The powers of VIPBS are exercised by a board of directors consisting of the Commissioner of Education, the Chairman of the Board of Education, three members appointed by the President of the Legislature, and four members, not more than two of whom should be employed by the Government and appointed by the Governor with the advice and consent of the Legislature.

In addition, the Director of the Office of Management and Budget, the President of the University of the Virgin Islands, and the General Manager of VIPBS are ex-officio members of the board who are not entitled to vote.

Virgin Islands Waste Management Authority (VIWMA)

VIWMA was established as a nonprofit, public, autonomous instrumentality of the Government by Act No. 6638 and approved by the Governor of the Virgin Islands on January 23, 2004. VIWMA provides environmentally sound management for the collection and disposal of solid waste in the Territory, including operation and closure of landfills and wastewater collection, treatment, and disposal. VIWMA is governed by a Board of Directors consisting of seven members.

University of the Virgin Islands Research and Technology Park Corporation (RTPark)

RTPark was established as a public, autonomous instrumentality of the Government by Act 6502 on February 21, 2002, as amended, by Act 6725, the Protected Cell Amendments Act of 2005. RTPark was organized for internet commerce and technology, providing an enabling environment for research, development, business incubation and technology-driven businesses.

RTPark is governed by a Board of Directors consisting of seven members, including the Chairman of the Board of Trustees of the University, the President of the University, two trustees selected from among the Board of Trustees of the University, and three members selected by the Governor.

Complete audited financial statements of the discretely presented component units can be obtained directly by contacting their administrative offices:

Administrative Offices

Virgin Islands Housing Authority
9900 Oswald Harris Court
St. Thomas, VI 00801

Virgin Islands Port Authority
P.O. Box 1707
St. Thomas, VI 00803

Virgin Islands Water and Power Authority
P.O. Box 1450
St. Thomas, VI 00804

Virgin Islands Government Hospital and Health Facilities Corporation
9048 Sugar Estate
St. Thomas, VI 00802

University of the Virgin Islands
2 John Brewer's Bay
St. Thomas, VI 00802

Virgin Islands Economic Development Authority
8000 Nisky Shopping Center, Suite 620
St. Thomas, VI 00802

Magens Bay Authority
P.O. Box 10583
St. Thomas, VI 00801

Virgin Islands Housing Finance Authority
3202 Demarara
Frenchtown Plaza, Suite 200
St. Thomas, VI 00802

Virgin Islands Public Broadcasting System
P.O. Box 7879
St. Thomas, VI 00801

Virgin Islands Waste Management Authority
1 A&B Demarara
St. Thomas, VI, 00802

University of the Virgin Islands Research and Technology Park Corporation
RR1 Box 10000
Kingshill, St. Croix, VI 00850-9781

All financial statements of the discretely presented component units have a fiscal year end of September 30, 2017, except for WAPA and VIHA which have a fiscal year-end of June 30, 2017 and December 31, 2016, respectively.

(c) Fiduciary Component Unit

The following public benefit corporation is legally separate from the Government, meets the definition of a blended component unit, and is presented in the fund financial statements along with other fiduciary funds of the Government. Fiduciary funds are not reported in the government-wide financial statements.

Employees' Retirement System of the Government of the Virgin Islands (GERS)

GERS was created as an independent and separate agency of the Government with the purpose of administering the Government's and the component units' cost-sharing, multi-employer defined benefit pension plan. GERS was established on October 1, 1959. The responsibility for the operation of GERS is vested in a board of trustees composed of seven members appointed by the Governor with the advice and consent of the Legislature.

Employee and employer contributions to GERS are recognized as additions to net position held in trust for employees' pension benefits in the period in which employee services are performed, except for contributions pursuant to the Early Retirement Act of 1994, which are recorded as the cash is received. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan, except for benefits pursuant to sections 8(a) and 8(b) of the Early Retirement Act of 1994, which are recorded when the subsidy provided by the Government is receivable and payable.

Complete audited financial statements of this component unit can be obtained directly by contacting its administrative office:

Employees' Retirement System of the Government of the Virgin Islands
3438 Kronprindsens Gade
St. Thomas, Virgin Islands 00802

Government-wide and Fund Financial Statements

The government-wide financial statements (that is, the statement of net position and the statement of activities) report information on all the non-fiduciary activities of the PG and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the PG is reported separately from certain legally separate component units for which the PG is financially accountable. The statement of net position presents the reporting entities' non-fiduciary assets and liabilities, with the difference reported as net position.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues include (i) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a function or segment. Taxes and other items are not included among program revenues and are appropriately reported instead, as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

(a) Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with GAAP as prescribed by the GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue when eligibility requirements have been met.

(b) Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are deemed available when they become susceptible to accrual and are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Government considers most revenue to be available if collected within 90 days of the end of the current fiscal year-end. Specifically, gross receipts taxes, real property taxes, and income taxes are deemed available if collected within 30, 60, and 90 days, respectively, after the end of the current fiscal year-end.

Grant revenue is deemed available if collected within the 12 months after the end of the current fiscal year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and pension expenditures are recorded only when payment is due.

Income taxes, gross receipts taxes, real property taxes, and grant funding are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period to the extent they are considered available. All other revenue items are deemed measurable and available only when cash is received by the Government.

(c) Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units Financial Statements

The financial statements of the proprietary funds, fiduciary funds, and discretely presented component units are reported using the economic resources measurement focus and the accrual basis of accounting also used in the government-wide financial statements described above.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fund Accounting

The Government reports its financial position and results of operations in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. Generally accepted governmental accounting principles establish criteria (percentage of the assets, liabilities, revenue, or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. Indirect costs are automatically allocated and reported in the program expense for each fund. Non-major funds are combined in a single column in the fund financial statements. The Government reports the following major funds:

(a) Governmental Funds

The Government reports the following major governmental funds:

- <u>General Fund</u> – The general fund is the Government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- <u>PFA Debt Service Fund</u> – The PFA debt service fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by PFA on behalf of the Government.

- <u>PFA Capital Projects Fund</u> – The PFA capital projects fund accounts for bond proceeds of debt issued by the PFA on behalf of the Government. The bond proceeds have been designated for certain necessary public safety and capital development projects which are accounted for in this fund.

- <u>Federal Grants Fund</u> - The federal grants fund accounts for proceeds and payments that are restricted to expenditures for specified purposes.

(b) Proprietary Funds

These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public. The Government reports the following major proprietary funds:

- The West Indian Company Limited – WICO, a blended component unit of PFA, accounts for the activities of a cruise ship pier and shopping mall complex on the island of St. Thomas.
- Unemployment Insurance Fund – The unemployment insurance fund accounts for the collection of unemployment premiums from employers in the U.S. Virgin Islands, and the payment of unemployment benefits to eligible unemployed recipients.
- Virgin Islands Next Generation Network (viNGN) – viNGN, a blended component unit of PFA, accounts for the management of a middle mile wholesale fiber optic network providing reliable high-speed internet access to retail internet service providers and public infrastructure stewards.

(c) Fiduciary Funds

Fiduciary funds are used to account for assets held by the Government in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The following are the Government's fiduciary funds:

- Pension Trust Fund – The pension trust fund accounts for the activities of GERS, an independent and separate agency of the Government, responsible for the proper operation of the Government's defined benefit pension plan.
- Agency Fund – The agency fund is custodial in nature and does not involve measurement of the results of operations.

Cash and Cash Equivalents

The Government follows the practice of pooling cash. The balance in the pooled cash accounts is available to meet current operating requirements and any excess is invested in various interest-bearing accounts and time deposits with eligible depository institutions.

Cash equivalents of the proprietary funds and discretely presented component units consist of demand accounts, money market accounts, certificates of deposit with maturities of not more than 90 days from the date of acquisition, short-term U.S. government and its agencies' obligations, and repurchase agreements with a U.S. commercial bank maturing within three months. Cash and cash equivalents of the discretely presented component units are maintained in separate bank accounts from those of the PG, in their own names.

By law, banks, or trust companies designated as depositories of public funds of the Government are to maintain corporate surety bonds or pledge collateral satisfactory to the Commissioner of Finance to secure all governmental funds deposited. The Government maintains an irrevocable stand-by letter of credit in the amount of $200.0 million with the Federal Home Loan Bank of New York to serve as pledged collateral for public fund depositories held at Banco Popular de Puerto Rico.

For the purpose of the statement of cash flows, cash and cash equivalents are defined to be cash on hand, demand deposits, restricted cash and investments, and highly liquid investments with a maturity of three months or less from the date of purchase. For financial statement presentation purposes, cash and cash equivalents are shown as cash and investments and restricted cash and investments.

Investments

The PG and its component units follow the provisions of GAAP which establishes and modifies the following disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk.

Investment policies of the PG, its blended component units, major funds, and major component units are as follows:

- *Primary Government Investment Policies* - Title 33, Chapter 117 of the Virgin Islands Code (V.I. Code) authorizes the Government to invest in U.S. Government and its agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, and corporate debt and equity obligations.

  As of September 30, 2017, the General Fund, the Virgin Islands Lottery, a nonmajor enterprise fund, and an agency fund had invested in certificates of deposit with two local banks. Investments are reported at fair value at September 30, 2017.

- *PFA Investment Policies* – Investments of the PFA are reported at fair value. Various bond resolutions of the PFA restrict investments to direct obligations of the U.S. Government, territories, possessions and states, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. The PFA has retained investment managers and investments are held in trust by a commercial bank on behalf of the PFA. The PFA handles investments for two major governmental funds of the Government: the PFA Debt Service Fund and the PFA Capital Projects Fund.

- *Tobacco Settlement Financing Corporation Investment Policies* – Various bond resolutions of this blended component unit restrict investments to direct obligations of the U.S. Government, territories, possessions and states, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. TSFC has retained investment managers and investments are held in trust by a commercial bank on behalf of the TSFC. Investments are reported at fair value in the non-major governmental fund of the Government.

- *West Indian Company Investment Policies* – This blended business-type major fund of the Government maintains an investment policy that (i) limits investments in bonds to a maximum remaining maturity of 30 years (or estimated average life on mortgage-backed issues), (ii) limits fixed income securities to a maximum of 40% and a minimum of 30% of the overall assets of the WICO portfolio, (iii) limits corporate bond exposure to 45% of the fixed income portfolio, and (iv) has no provision which limits or restricts investments in U.S. Government Treasury or Agency issues. WICO reports investments at fair value.

- *VIHA Investment Policies* – This major component unit is required by the U.S. Department of Housing and Urban Development (HUD) to invest excess funds in obligations of the United States, certificates of deposit, or any other federally insured investment. HUD requires that deposits be fully collateralized and may be held by an unaffiliated bank or trust company for the account of the VIHA.

- *WAPA and VIPA Investment Policies* – These major component units are authorized under bond resolutions and the V.I. Code to invest in open accounts, time deposits, non-negotiable certificates of deposit, repurchase agreements, obligations of the U.S. government, and obligations of any state within the United States, mutual funds, and corporate commercial paper. Investments are reported at fair value.

- *VIGHHFC Investment Policies* – The board of trustees of this major component unit has not developed a formal investment policy.

- *University Investment Policies* – The board of trustees of this major component unit is responsible for the management of the University's investments and establishes an investment policy, which is carried out by the Vice President for Administration and Finance. The University and the Reichhold Foundation have a formal investment policy approved by their corresponding board of trustees, which contains a requisite section on addressing risks. In fiscal year 2014, the Board passed a resolution to transfer the University's investments to the Foundation's investment portfolio for management and investment purposes.

- *Pension Trust Fund Investment Policies* – The board of trustees of GERS has enacted policies that limit investments in certain investment categories and provide requirements for the institutions with which investment transactions may be entered into.

  Under those policies, GERS may invest in U.S. Government and agencies obligations, bonds or notes of any state, territory or possession of the United States, municipal bonds and obligations, foreign bonds, bonds of domestic railroad corporations, public utility bonds, industrial corporate bonds or trust certificates, common and preferred shares of foreign and domestic corporations, mutual funds, mortgage or personal loans to GERS members or retirees, and mortgage and asset-backed securities. Investments in bonds are subject to rating restrictions of BBB and may not exceed 2% of the portfolio. Investments in stock of a single corporation may not exceed 1% of the market value of the fund, or exceed 1% of the outstanding stock of the corporation.

  The aggregate amount of investments in stock may not exceed 60% of the market value of total investments of GERS. Investment in foreign stock should be limited to 10% of the market value of the total investments of GERS. Any investment of 20% or more of the aggregate value of the portfolio must be approved by two-thirds of the membership of the board of trustees. The investments are administered by several professional investment managers and are held in trust by a commercial bank on behalf of GERS.

  Investments in equity securities in the GERS pension trust fund are reported at quoted market values. Shares of mutual funds are reported at the net asset value of shares held by GERS at year-end. Purchases and sales are recorded on a trade-date basis. Realized gains and losses on securities are determined by the average cost method.

GERS is authorized to provide loans to businesses approved by the Board of Trustees as alternative investments. On December 8, 2009, GERS executed a loan agreement with Carambola Northwest, LLC (Carambola), a condominium, hotel and golf resort on the island of St. Croix. The five-year term loan in the amount of $15.0 million was collateralized with all real property holdings of Carambola, with an interest rate of 10.5% per annum. Carambola subsequently went into default on the loan agreement. On May 11, 2013, GERS exercised its rights under the loan agreement and executed a preliminary Disposition Agreement with Carambola assuming management and ownership of the resort complex. As of September 30, 2017, the complex had an appraised value of $15.0 million.

On July 18, 2012, GERS executed a loan agreement with Attilanus. Under the terms of the agreement, a credit facility of $10.0 million was made available to meet on-going premium costs and other expenses of the Company. The terms of the credit facility require interest payments at a rate of 15% per annum, and principal payments reduce the future amount available. The entire loan principal and accrued and unpaid interest was to be repaid at the termination of the credit facility on July 10, 2017. The loan was not paid on the termination date and as of September 30, 2017, the outstanding balance of the credit facility was $10.0 million. GERS received interest payments during the year ended September 30, 2017, of $474,000.

On September 24, 2013, GERS entered into a loan agreement with KAZI Foods of the Virgin Islands, Inc. in the amount of $6.0 million at an interest rate of 6.25%, and a maturity date of October 23, 2023. At September 30, 2017, the outstanding principal balance on the loan is $4.3 million.

On June 30, 2014, GERS entered into a construction loan agreement with V.I. Finest Foods, LLC in the amount of up to $8.2 million at an interest rate of 6.4%, with an interest-only period of 17 months and a fully amortizing period of 103 months. The loan was subsequently modified on May 24, 2016, to provide an increase in the principal amount of the loan to $11.0 million and an extended maturity date of March 31, 2025. As of September 30, 2017, the outstanding balance of the loan is $11.2 million.

GERS has also invested in Havensight Mall, a shopping and pier complex on the island of St. Thomas with a fair market value of $41.0 million. GERS has also invested in the limited partnership Mesirow with a fair market value of $16.8 million at September 30, 2017.

GERS owns administrative facilities on the islands of St. Thomas and St. Croix. Portions of the facilities are leased to government agencies and commercial tenants, and portions of the facilities are utilized for GERS operations. The investment in real estate is reported at its appraised value, which approximates fair value, in the amount of $23.7 million as of September 30, 2017.

Receivables

Taxes receivable represent amounts owed by taxpayers for individual and corporate income taxes, gross receipts taxes, excise taxes, hotel occupancy taxes, and real property taxes. Federal government receivables represent amounts owed to the Government for reimbursement of expenditures incurred pursuant to federally funded programs.

Accounts receivable are reported net of estimated allowances for uncollectible amounts, which are determined, based upon past collection experience and current economic conditions.

The accounts receivable from non-governmental customers of the discretely presented component units are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from the PG and other component units that arise from service charges do not have allowances for uncollectible accounts because in the opinion of management, all accounts are collectible.

Interfund and Intra-Entity Transactions

The Government has the following types of transactions among funds:

- *Interfund Transfers* – Legally required transfers are reported as interfund transfers in (out) when incurred. Transfers between the PG and its blended component units are reported as interfund transfers, except for transfers within the same fund type.

- *Intra-entity Transactions* – These are transactions between the PG and its discretely presented component units, and among the component units.

Similarly, receivables and payables between the PG and its blended component units are reported as amounts due from (to) other funds. Transfers between the PG and discretely presented component units (and among those component units) are reported separately as revenue and expenses or expenditures. Amounts owed to and from discretely presented component units by the PG are reported separately from interfund payables and receivables as due from (to) component units, net of allowance for estimated uncollectible amounts.

Restricted Assets

Restricted assets in the PG and discretely presented component units are set aside primarily for the payment of bonds, notes, construction funds, unemployment benefits, and other specific purposes.

Capital Assets

Capital assets, which include land, land improvements, buildings, building improvements, machinery and equipment, construction in progress, intangibles and infrastructure assets are reported in the applicable governmental, business-type activities, and component unit columns in the government-wide financial statements as well as in the applicable proprietary funds reported in the fund financial statements.

The PG defines capital assets as assets that have an initial, individual cost and useful lives of: (i) $5,000 for personal property with a useful life of five years; (ii) $50,000 for buildings and building improvements with estimated useful lives of 40 and 20 years, respectively; (iii) $100,000 for land improvements with an estimated useful life of 20 years; (iv) $200,000 for intangibles with estimated useful lives between 2 and 15 years; and (v) $200,000 for infrastructure with an estimated useful life of 30 years. All costs of acquiring land are capitalized.

Capital assets purchased or acquired are carried at historical cost or normal cost. The normal costing method to estimate cost based on replacement cost indexed by a reciprocal factor of the price increase from the appraisal date to the actual or estimated acquisition date was used to estimate the historical cost of certain land, buildings, and building improvements because invoices and similar documentation was no longer available in certain instances. Donated capital assets are recorded at acquisition value at the time of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs are capitalized during the construction period only for business-type activities and proprietary component units. The costs of routine maintenance and repairs that do not add value to the assets or materially extend asset lives are expensed as incurred.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements.

Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units' financial statements.

Capital assets of the PG, excluding land and construction in progress, are depreciated on the straight-line method over the assets' estimated useful lives.

The estimated useful lives of capital assets reported by the component units are (i) 4 to 50 years for buildings and building improvements; (ii) 20 to 40 years for airports and marine terminals; (iii) 40 to 100 years for water transmission and distribution mains; and (iv) 3 to 25 years for vehicles and equipment.

The PG and its component units review the carrying value of their capital assets to determine if circumstances exist indicating impairment. If facts or circumstances support the possibility of impairment, management follows the guidance in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* If impairment is indicated, an adjustment is made to the carrying value of the capital assets.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents consumption of the net position that applies to future period(s) and is not recognized as an outflow of resources (expense/expenditure) until the future date occurs.

The Government has two items for financial reporting in these categories, as follows:

- Deferred amounts related to pension represent unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

- Deferred charges on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

The Government has two items for financial reporting in this category, as follows:

- Deferred amounts related to pension consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments, changes in assumptions, and other differences between expected and actual experience.

- Modified accrual basis of accounting - Unavailable revenues qualify for reporting in this category. The item, *unavailable revenues*, is reported only in the governmental funds' balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, gross receipts taxes, and income taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Tax Refunds Payable

During the calendar year, the Government collects individual income taxes through withholdings and payments from taxpayers. As of September 30th, the Government estimates the amount owed to taxpayers for overpayments during the first nine months of the calendar year. These estimated amounts and the actual tax refunds claimed for prior years but not paid at year-end are recorded as tax refunds payable and as a reduction of tax revenue.

Compensated Absences

The vacation policy of the Government provides for the accumulation of four, six, or eight hours for each full biweekly pay period depending on the time of entry into government service. At the beginning of each calendar year, vacation leave is limited to 480 hours (60 days). However, the excess of 480 hours is considered by GERS for service credit towards the employees' retirement.

This vacation policy does not apply to professional educational personnel of the Virgin Islands Department of Education, who receive compensation during the school breaks. Upon retirement, an employee receives compensation for unused vacation leave at the employee's base pay rate.

Employees accumulate sick leave at a rate of four hours for each full biweekly pay period up to a maximum of 180 days. Separated employees do not receive payment for unused sick leave; therefore, a provision for accumulated sick leave is not required.

Compensated absences accumulation policies for the blended component units and discretely presented component units vary from entity to entity, depending upon negotiated bargaining agreements and other factors agreed upon between the management of these entities and its employees.

Long-term Liabilities

The liabilities reported in the government-wide financial statements include the Government's bonds, long-term notes, pension liabilities and other long-term liabilities including: accrued compensated absences, retroactive union arbitration, litigation, landfill closure and post closure costs, postemployment benefits, and workers compensation claims.

Bond premiums, discounts, and amounts deferred on capital appreciation bonds are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums and discounts. Issuance costs are reported as expenses in the year incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Net Position

Net position is reported in three categories:

- *Net Investment in Capital Assets* – This consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Debt pertaining to significant unspent debt proceeds are not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is presented, net of the related debt, as restricted for capital projects.

- *Restricted Net Position* – Constraints placed on the use of assets are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Position* – These consist of assets which do not meet the definition of the two preceding categories. Unrestricted assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted assets often have constraints on resources that are imposed by management, but can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Government's policy to use restricted resources first, then the unrestricted resources, as needed.

Fund Balance

GAAP provides a hierarchy of classifications based primarily on the extent to which the Government is bound to honor constraints on the specific purposes for which amounts in funds may be spent. Following are the fund classifications:

- *Restricted Fund Balance* – Fund balances constrained by externally imposed constraints such as constitutional provisions, laws and regulations, debt covenants, and grantors. The Government's policy is to consider restricted amounts to have been spent first when expenditures are incurred for which both restricted and unassigned fund balances are available.

- *Committed Fund Balance* – Fund balances subject to constraints imposed by the Government's highest level of decision-making authority including legislation enacted by the Legislature of the Virgin Islands and resolutions or ordinances enacted by Government elected regulatory boards and authorities. Committed fund balances may be modified or rescinded by enacted legislation, or amendment of resolutions or ordinances.

- *Assigned Fund Balance* – Fund balances subject to budgetary constraints of the Legislature, the Office of Management and Budget, or authorizing boards of the Government, that are not restricted or committed.

  Budgetary authority of the Office of Management and Budget is provided by Title 2, Sections 22, 23, 26 and 27 VIC, and Executive Order No. 371-1997. The Government's policy is to expend assigned or committed amounts, before unassigned amounts, when an expenditure is incurred.

- *Unassigned Fund Balance* – Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The residual deficit of the Federal Grants Fund is also reported as unassigned fund balance.

Risk Management

With some exceptions, the Government does not carry general liability insurance coverage on its properties or the acts of its employees, relying instead on self-insurance and/or statutory liability limitations. The Government purchases commercial insurance for physical losses or damages against its property. The limit of liability for all risks, excluding earthquake, windstorm, and flood, is $1.0 million for each occurrence except for windstorm and flood losses, which has a $45.0 million limit. For physical losses arising from earthquake, the insurance policy has a limit of $100.0 million for each occurrence and in the annual aggregate.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of Accounting Pronouncements

GASB has issued the following statements that the Government and its component units have adopted for the current year. The adoption of these statements did not have an impact on the Government and its component units' financial statements.

GASB Statement Number		Adoption in Current Fiscal Year
74	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	2017
78	Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans	2017
80	Blending Requirements for Certain Component Units-An Amendment of GASB Statement No. 14	2017

GASB has issued the following statements that the Government or its component units have not yet adopted. The Government and its component units are currently evaluating the impact of these statements.

GASB Statement Number		Adoption in Future Fiscal Year
75	Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	2018
81	Irrevocable Split-Interest Agreements	2018
83	Certain Asset Retirement Obligations	2019
84	Fiduciary Activities	2020
85	Omnibus 2017	2018
86	Certain Debt Extinguishment Issues	2018
87	Leases	2021
88	Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements	2019
89	Accounting for Interest Cost Incurred Before the End of a Construction Period	2021
90	Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61	2020
91	Conduct Debt Obligations	2022

2. Component Units

The basic financial statements include the financial statements of the following discretely presented component units:

Major Component Units

- Virgin Islands Housing Authority
- Virgin Islands Port Authority
- Virgin Islands Water and Power Authority
- Virgin Islands Government Hospital and Health Facilities Corporation
- University of the Virgin Islands

Other Component Units (Nonmajor)

- Virgin Islands Economic Development Authority
- Magens Bay Authority
- Virgin Islands Housing Finance Authority
- Virgin Islands Public Broadcasting System
- Virgin Islands Waste Management Authority
- University of the Virgin Islands Research and Technology Park Corporation (unaudited)

Condensed financial information as of September 30, 2017, of all discretely presented component units follows (expressed in thousands):

	Virgin Islands Housing Authority	Virgin Islands Port Authority	Virgin Islands Water and Power Authority: Electric System	Virgin Islands Water and Power Authority: Water System	Hospital and Health Facilities Corporation: Roy L. Schneider Hospital	Hospital and Health Facilities Corporation: Juan F. Luis Hospital	University of the Virgin Islands	Other Component Units*	Total Component Units
Assets and deferred outflows									
Current assets	$ 30,755	$ 37,349	$ 66,177	$ 9,318	$ 11,304	$ 20,407	$ 10,100	$ 30,983	$ 216,393
Due from primary government	-	-	34,349	6,865	-	2,029	455	5,921	49,619
Due from federal government	443	2,216	-	-	7,237	-	3,529	1,335	14,760
Restricted assets	909	30,763	67,671	9,702	436	101	61,170	53,945	224,697
Capital assets, net	65,385	207,151	494,508	64,829	35,943	20,429	65,295	166,421	1,119,961
Other noncurrent assets	6,441	600	34,924	-	304	-	13,471	40,606	96,346
Deferred outflows of resources	20,811	49,175	82,045	16,804	46,317	37,198	30,172	32,308	314,830
Total assets and deferred outflows of resources	124,744	327,254	779,674	107,518	101,541	80,164	184,192	331,519	2,036,606
Liabilities and deferred inflows									
Current liabilities	3,640	23,283	227,522	19,335	49,556	56,146	14,480	35,698	429,660
Due to primary government	-	-	-	-	4,145	-	-	-	4,145
Due to federal government	-	-	4,142	-	-	-	-	-	4,142
Bonds payable - long-term	-	42,283	252,757	-	-	-	-	-	295,040
Notes payable - long-term	-	-	-	-	-	-	79,647	4,517	84,164
Due to component units	-	-	-	-	-	12,013	-	-	12,013
Pension liabilities	76,858	156,158	274,794	56,283	162,362	121,331	91,925	111,268	1,050,979
Other noncurrent liabilities	13,156	1,376	203,877	9,957	-	164	4,839	11,120	244,489
Unearned revenue - long-term	-	-	-	-	-	-	-	5,472	5,472
Deferred inflows of resources	3,399	1,206	25,322	5,186	13,628	7,986	3,913	2,622	63,262
Total liabilities and deferred inflows of resources	97,053	224,306	988,414	90,761	229,691	197,640	194,804	170,697	2,193,366
Net assets (deficit):									
Invested in capital assets, net of related debt	62,945	188,121	186,761	61,739	35,943	19,978	9,539	149,297	714,323
Restricted	7,259	31,341	28,005	9,026	436	101	58,311	67,099	201,578
Deficit	(42,513)	(116,514)	(423,506)	(54,008)	(164,529)	(137,555)	(78,462)	(55,574)	(1,072,661)
Total net position (deficit)	$ 27,691	$ 102,948	$ (208,740)	$ 16,757	$ (128,150)	$ (117,476)	$ (10,612)	$ 160,822	$ (156,760)

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

Information on Statement of Activities	Expenses	Program revenue: Charges for Services	Program revenue: Operating Grants and Contributions	Program revenue: Capital Grants and Contributions	Total Component Units
Virgin Islands Housing Authority	$ 57,039	$ 4,847	$ 40,865	$ 5,252	$ (6,075)
Virgin Islands Port Authority	79,892	54,345	-	9,944	(15,603)
Virgin Islands Water and Power Authority:					
Electric System	289,883	244,230	-	4,873	(40,780)
Water System	30,676	31,207	-	2,826	3,357
Virgin Islands Government Hospital and Health Facilities Corporation:					
Roy L. Schneider Hospital	92,044	54,765	21,887	-	(15,392)
Juan F. Luis Hospital	86,170	52,044	24,054	-	(10,072)
University of the Virgin Islands	86,065	42,274	24,125	4,992	(14,674)
Other component units*	81,058	14,333	47,573	2,789	(16,363)
Total activities	$ 802,827	$ 498,045	$ 158,504	$ 30,676	$ (115,602)
General revenue:					
Interest and other					10,970
Impairment loss on capital assets, net					(64,265)
Changes in net position					(168,897)
Net position, beginning of year (as restated)					12,137
Net deficit, end of year					$ (156,760)

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

Beginning net position of other discretely presented component units was restated to correct accrual of compensated absences in the amount of $45,000.

The summary of due to/from primary government and component units as of September 30, 2017, is as follows (expressed in thousands):

	Due from PG/ Component Units	Due to PG/ Component Units
Governmental funds:		
General fund	$ 4,145	$ 20,885
PFA capital projects	-	2,259
Other governmental fund	750	4
Discretely presented component units:		
WAPA – Electric System	34,349	-
WAPA – Water System	6,865	-
Hospital and Health Facilities Corporation	2,029	16,158
University of the Virgin Islands	455	-
Other component units*	10,921	-
	$ 59,514	$ 39,306

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

The due from/to component units, net of $20.2 million reported in the government-wide statement of net position was due to the difference in fiscal year ends for WAPA (June 30) and VIHA (December 31).

3. Natural Disasters – Hurricanes Irma and Maria

On September 6 and 19, 2017, the United States Virgin Islands were struck by two Category 5 hurricanes. The extent and severity of the storms was unprecedented and resulted in catastrophic damage to the Territory.

The PG suffered losses to office buildings and educational facilities, roads, infrastructure, and various machineries and equipment. The PG had purchased commercial insurance to cover its risk of loss from destruction of assets and under these policies, realized insurance recoveries subsequent to fiscal year 2017. See Note 18.

On or about September 7 and 20, 2017, the President of the United States declared the United States Virgin Islands a disaster area and eligible for Federal Emergency Management Agency (FEMA) recovery assistance. As such, to further aid with storm related losses caused by the hurricanes, reimbursement of expenditures will be secured through federal assistance and other contributions, as described in Note 18.

In addition to incurring significant storm related expenses, recurring operating revenues of the PG have been reduced. To meet the continuing liquidity needs of the PG, various financing sources will be relied upon. See Notes 16 and 18.

4. Cash and Cash Equivalents

Primary Government

At September 30, 2017, the PG reported $152.1 million in unrestricted cash and cash equivalents and $7.9 million in restricted cash and cash equivalents. All of the PG's bank balances were fully collateralized.

Pension Trust Fund

GERS considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. At September 30, 2017, GERS held $132.6 million in cash and cash equivalents consisting of: $97.7 million in money market accounts and $34.9 million in operational accounts.

Component Units

At September 30, 2017, discretely presented component units held $89.1 million in unrestricted cash and cash equivalents and $95.9 million in restricted cash and cash equivalents.

5. Investments

Fair Value Measurements

The Government categorizes the fair market measurements of its investments within the fair value hierarchy established by GAAP. GASB Statement No. 72, *Fair Value Measurement and Application*, provides the framework for measuring fair value by establishing a three-level fair value hierarchy that describes inputs that are used to measure assets and liabilities as follows:

Level 1: Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2: Inputs are other than quotes prices included within Level 1 that are observable for an asset or liability, that are either directly or indirectly observable.

Level 3: Inputs are significant unobservable inputs.

The fair value hierarchy gives the highest priority to Level 1 and the lowest priority to Level 3 inputs. If a price for an identical asset is not observable, a government may evaluate fair market value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset is measured using inputs from more than one level of the fair market value hierarchy, the measurement is based on the lowest level input that is significant to the entire measurement.

The following section describes the valuation technique methodologies the Government is using to measure assets at fair value:

Level 1: Investments classified within Level 1 are valued based on quotes obtained from active public exchanges or reported on the national market and are stated at the last reported sales price on the day of valuation. Fair value of exchange-traded contracts is based upon exchange settlement prices.

Level 2: Investments classified within Level 2 are valued by pricing vendors using outside data. In determining the fair value of the investments, the pricing vendors use a market approach and pricing spreads based on the credit risk of the issuer, maturity, current yield, and other terms and conditions of each security. The commercial paper, letter of credit, and debt securities are classified as Level 2 instruments as their fair value is based on quoted values stated by the bank’s mark-to-market estimate using a stated fixed rate. The interest rate is observable at commonly quoted indexes for the full term of the instruments.

Level 3: Investments in limited partnerships and private debt/direct lending are classified within Level 3 of the fair value hierarchy. Given the absence of market quotations, fair value is estimated using the information provided by the investment managers or general partners. The values are based on estimates that require varying degrees of judgment and, for the fund of funds investments, are primarily based on financial data supplied by the investment managers of the underlying funds.

Individual holdings within alternative investments may include instruments in both nonmarketable and market-traded securities. Nonmarketable securities may include equity in private companies, real estate, thinly traded securities, and other investment vehicles. While these financial instruments contain varying degrees of risk, the Government's exposure with respect to each such investment is limited to carrying amount (fair value as described above).

Assets using net asset value per share as fair value are not required to be categorized using the fair value hierarchy levels.

Primary Government

Following are the investments of the PG categorized within the three-level fair value hierarchy:

		(in thousands)		
	September 30, 2017	**Level 1**	**Level 2**	**Level 3**
Money market funds	$ 494,517	$ 494,517	$ -	$ -
Investments with contractual maturities:				
Certificates of deposit	14,068	14,068	-	-
U.S. government and agency obligations	51,041	51,041	-	-
U.S. Treasury notes	7,452	7,452	-	-
Portfolio investments:				
Commercial paper	39,623	-	39,623	-
Letter of credit	661	-	661	-
Subtotal	607,362	$ 567,078	$ 40,284	$ -
Investments, at cost:				
Others	23			
Total	$ 607,385			

Following is a summary of the investments of the PG categorized by investment type and weighted average maturity, as of September 30, 2017, (expressed in thousands):

		Maturity (in years)		
	Fair Value	Less Than 1 Year	1 to 5 Years	Over 5 Years
Investments with contractual maturities				
Certificates of deposit	$ 14,068	$ 14,068	$ -	$ -
U.S. government and agency obligations	51,041	27,189	23,852	-
U.S. Treasury notes	7,452	7,452	-	-
Portfolio investments				
Commercial paper	39,623	39,140	-	483
Letter of credit and others	684	684	-	-
Total investments with contractual maturities	112,868	$ 88,533	$ 23,852	$ 483
Investments without contractual maturities				
Money market funds	494,517			
Total	$ 607,385			

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The PG does not have a formal investment policy that limits investment maturities as a means of managing such exposure. As a means of keeping the interest rate risk low, virtually all investments held by the PG are short-term in nature.

Credit Risk – The authorizing legislation of the PG does not limit investments by credit rating categories. Authorizing legislation does limit the investment choices of the PG to direct obligations or obligations guaranteed by the United States, obligations of states, territories, possessions and commonwealths of the United States, obligations of international banking institutions, repurchase agreements, investment contracts, certificates of deposit, guaranteed investment contracts, shares in mutual funds, investment companies, corporate commercial paper, money market portfolio investments, and investment pools.

At September 30, 2017, the PG's investments in money market funds were rated AAAm by Standard & Poor's, and Aaa-mf and Aaa- by Moody's Investor Service. The PG's investments in commercial paper were rated A-1 by Standard & Poor's and P-1 by Moody's Investor Services.

Concentration of Credit Risk – The PG places no limit on the amount that may be invested in one issuer. At September 30, 2017, more than 5.0% of the PG's investments were invested in: Goldman Financial Square Money Market #524 (50.33%), Federated Government Obligation #5 (21.10%); Invesco Treasury #1931 (8.41%); and Chesham FNC, LLC, CPDs (6.44%).

Custodial Credit Risk – The PG and GERS does not have a custodial risk policy. The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, the PG and GERS will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. At September 30, 2017, $595.7 million of investments were held in the name of the Bank of New York Trust Company, N.A, as trustee for the Government.

Pension Trust Fund

Following are the investments of the Pension Trust Fund categorized within the three-level fair value hierarchy:

	September 30, 2017	*(in thousands)* Level 1	Level 2	Level 3
Equity securities:				
Consumer goods	$ 24,146	$ 24,146	$ -	$ -
Energy	3,713	3,713	-	-
Financial	23,440	23,440	-	-
Health care	11,070	11,070	-	-
Industrial	16,895	16,895	-	-
Information technology	22,974	22,974	-	-
Materials	2,975	2,975	-	-
Real estate/construction	3,007	3,007	-	-
Telecommunication services	2,139	2,139	-	-
Utilities	1,548	1,548	-	-
Debt securities:				
Government agency obligations	13,002	-	13,002	-
Municipal obligations	1,093	-	1,093	-
Corporate bond	27,432	-	27,432	-
Asset-backed securities	6,687	-	6,687	-
Collateralized mortgage obligations	822	-	822	-
Commercial mortgaged-backed securities	5,688	-	5,688	-
Residential mortgaged-backed securities	16,726	-	16,726	-
Limited partnerships:				
Private equity fund of funds	16,804	-	-	16,804
Private debt-direct lending/other investments	127,713	-	-	127,713
Real estate/other real assets	79,749	-	-	79,749
Subtotal	407,623	$ 111,907	$ 71,450	$ 224,266
Investments, at cost:				
Money market funds	97,740			
Investments measured at net asset value (NAV):				
Commingled equity funds	174,929			
Commingled bond funds	119,798			
Securities lending collateral fund	19,478			
Total	$ 819,568			

Pension trust funds investments which are measured at NAV per share, or equivalent are presented in the table below (expressed in thousands):

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments measured at net asset value (NAV):				
Commingled equity funds	$ 174,929	$ -	Daily, Semi-monthly	None
Commingled bond funds	119,798	-	Daily	1 – 15 days
Securities lending collateral fund	19,478	-	Daily	2 – 10 days
Total	$ 314,205	$ -		

Commingled equity and bond funds - This type includes nine commingled funds that invest in publicly traded domestic & global stocks, and domestic & global fixed income securities. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the investments. Of the total commingled funds, $251.1 million of the assets can be liquidated on a daily basis and $43.6 million can be liquidated on a semi-monthly basis with 8-15 days' notice. All of the underlying securities within the commingled funds carry a recurring fair value measurement level of 1 or 2. There are no unfunded commitments for the commingled funds at September 30, 2017.

Securities lending collateral - GERS' custodian is the agent in lending the GERS' securities for collateral and investments which are in a commingled fund.

Following is a summary of the investments of the pension trust fund, categorized by investment type and weighted average maturity, as of September 30, 2017, (expressed in thousands):

		Maturity (in years)				
	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years	No Stated Maturity
Investments with contractual maturities						
U.S. government and agency obligations	$ 592	$ -	$ 592	$ -	$ -	$ -
U.S. Treasury notes	5,824	-	4,540	1,284	-	-
U.S. Treasury bonds	6,586	-	2,013	-	4,573	-
Municipals	1,093	60	-	1,033	-	-
Commingled mutual funds	294,727	-	-	-	-	294,727
Corporate obligations	27,432	44	13,212	7,493	6,683	-
Mortgage and asset backed securities	29,923	-	6,134	1,947	21,842	-
Investment loan	27,930	10,000	3,619	14,311	-	-
Total investments with contractual maturities	394,107	$ 10,104	$ 30,110	$ 26,068	$ 33,098	$ 294,727
Investments without contractual maturities						
Equity securities:						
Common stocks - U.S.	108,900					
Money market funds	97,740					
Real estate investments:						
Real estate investment trusts	3,007					
Havensight Mall - U.S. Virgin Islands	41,000					
Renaissance Carambola Beach Resort	15,000					
GERS Complex - U.S. Virgin Islands	23,749					
Limited partnerships	16,804					
Debt lending/other	99,783					
Securities lending short-term collateral investment pool	19,478					
Total	$ 819,568					

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. GERS does not have a specific policy to manage interest rate risk, but requires investment managers to diversify by issue, maturity, sector, coupon, and geography. Investment managers retained by GERS follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Any exemption from general guidelines requires approval from GERS' board of trustees.

Credit Risk – GERS investment policy is designed to minimize credit risk by restricting authorized investments to only those investments permitted by statute, subject to certain additional limitations.

These additional limitations consist of prohibitions against investments in derivative securities, options, futures or short positions. GERS investment policy allows investments in mortgage pass-through securities.

The credit ratings of GERS' debt securities at September 30, 2017, include (expressed in thousands):

	Standard & Poor's Global Ratings		Moody's Investor Services	
	Fair Value	Credit Ratings	Fair Value	Credit Ratings
Corporate obligations	$ 492	AAA	$ 492	Aaa
Corporate obligations	145	AA+	145	Aa1
Corporate obligations	344	AA-	-	-
Corporate obligations	890	A	-	-
Corporate obligations	-	-	1,345	A1
Corporate obligations	-	-	826	A2
Corporate obligations	-	-	2,714	A3
Corporate obligations	-	-	7,209	Baa1
Corporate obligations	-	-	5,744	Baa2
Corporate obligations	-	-	8,913	Baa3
Corporate obligations	4,145	A-	-	-
Corporate obligations	7,113	BBB+	-	-
Corporate obligations	8,611	BBB	-	-
Corporate obligations	5,648	BBB-	-	-
Corporate obligations	44	Not Available	44	Not Available
Investment loans	27,930	Not Rated	27,931	Not Rated
Mortgage and asset backed securities	6,002	AAA	-	-
Mortgage and asset backed securities	390	A-	-	-
Mortgage and asset backed securities	23,531	Not Available	-	-
Mortgage and asset backed securities	-	-	8,245	Aaa
Mortgage and asset backed securities	-	-	350	A1
Mortgage and asset backed securities	-	-	20,196	Not Available
Mortgage and asset backed securities	-	-	1,131	Not Rated
Commingled and mutual funds	294,727	Not Rated	294,727	Not Available
Total	$ 380,012		$ 380,012	

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of GERS' investments in a single issuer of securities. GERS' investment policy establishes limitations on portfolio composition by investment type to limit its exposure to concentration of credit risk. There are no investments in any one issuer that represent 5% or more of total investments.

Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, GERS will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. The entire investment portfolio of GERS was held with a single third-party custodian as of September 30, 2017. At September 30, 2017, GERS had no underlying securities on loan secured by noncash collateral. Cash collateral held for securities lending transactions is invested in a collective investment pool maintained by the securities lending agent.

Foreign Currency Risk – Foreign currency risk is the risk of holding investments in foreign currencies and the risk that those foreign currencies may devalue. GERS has no general investment policy with respect to foreign currency risk.

Risks associated with foreign exchange contracts include the movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contract. Changes in the market value of open and closed forward contracts are recorded with interest, dividends, and other income or losses reported at fair value.

During the fiscal year ended September 30, 2017, GERS did not engage in any forward currency exchange contracts.

Securities Lending Transactions – The Government's statutes permit GERS to participate in securities lending transactions, and GERS has, via a securities lending authorization agreement (the Agreement), authorized State Street Bank and Trust Company (the Custodian) to lend its securities to broker-dealers and banks pursuant to a form of a loan agreement. Lent securities are collateralized with cash, securities issued or guaranteed by the U.S. government, or irrevocable bank letters of credit. GERS does not have the ability to pledge or sell collateral securities delivered absent a borrower default. No restrictions were imposed during 2017 as to the amount of loans the Custodian can make on behalf of GERS. Under the terms of the Agreement, the Custodian must indemnify the Government for losses attributable to violations by the Custodian under the "standard of care" clause described in the Agreement. There were no such violations during fiscal year 2017, or losses resulting from the default of the borrowers or the Custodian.

Loans are generally terminable on demand. The collateral received shall, (i) in the case of loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S. or sovereign debt issued by foreign governments, have a market value of 102% of the market value of the loaned securities; (ii) in the case of loaned securities which are not denominated in U.S. dollars or whose primary trading market is not located in the United States, have a market value of 105% of the market value of the loaned securities; or (iii) have a higher value as may be applicable in the jurisdiction in which the loaned securities are customarily traded. Such collateral should be kept, at a minimum, at 100% of the market value of the security for all borrowers throughout the outstanding period of the loans.

At September 30, 2017, approximately $27.9 million of U.S. government and agency securities, fixed income, and equity corporate securities were on loan. The cash collateral received with a corresponding liability of an equal amount is recorded in the statement of fiduciary net position. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a collective investment pool. As of September 30, 2017, such investment pool had a weighted average maturity of 39 days and an average expected maturity of 78 days. Because the loans were terminable on demand, their duration did not generally match the duration of the investments made with cash collateral.

Component Units

Following are the investments of the discretely presented component units categorized within the fair value hierarchy:

	September 30, 2017	Level 1	Level 2	Level 3
		(in thousands)		
Investments, at fair value:				
U.S. Government agencies and notes	$ 45,098	$ 45,098	$ -	$ -
Common stocks	10,757	10,757	-	-
Corporate bonds	4,109	-	4,109	-
Mutual funds	578	578	-	-
Derivative instruments	4,266	-	4,266	-
Subtotal	64,808	$ 56,433	$ 8,375	$ -
Investments, at cost:				
Certificate of deposits	19,558			
Investments measured at net asset value (NAV):				
Alternative investments	52,109			
Total	$ 136,475			

Following is a summary of the investments of the discretely presented component units, categorized by investment type and weighted average maturity, as of September 30, 2017, (expressed in thousands):

	Fair Value	Maturity (in years) Less Than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years
Investments with contractual maturities					
Certificates of deposit	$ 19,558	$ 12,907	$ 6,651	$ -	$ -
U.S. Government agencies and notes	45,098	45,098	-	-	-
Total investments with contractual maturities	64,656	$ 58,005	$ 6,651	$ -	$ -
Investments without contractual maturities					
Common stock	10,757				
Mutual funds	578				
Corporate bonds	4,109				
Other investments	56,375				
Total	$ 136,475				

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The component units of the Government have not established formal policies which limit investment maturities as a means of managing such exposure and have some exposure to interest rate risk.

Credit Risk and Concentration of Credit Risk – The authorizing legislation of the component units does not limit investments by credit rating categories. Authorizing legislation limits the investments choices of the component units, as described in Note 1. There are no investments in any one issuer that represent 5% or more of total investments.

Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, the component units will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. The component units of the Government do not have custodial credit risk policies.

6. Receivables

Primary Government

Receivables for governmental funds at September 30, 2017, consist of the following (expressed in thousands):

	General	PFA Debt Service	Other Governmental	Total
Income taxes	$ 252,562	$ -	$ -	$ 252,562
Real property taxes	121,616	-	-	121,616
Hotel occupancy taxes	5,010	-	-	5,010
Excise taxes	35,255	-	-	35,255
Gross receipts taxes	-	212,400	-	212,400
Gross taxes receivables	414,443	212,400	-	626,843
Less allowance for doubtful accounts	(238,682)	(186,705	-	(425,387)
Taxes receivables, net	175,761	25,695	-	201,456
Other	$ 38	$ -	$ 122	160
Tobacco settlement rights				678
Total				$ 202,294

(a) Tax Receivables

The Naval Appropriations Act created a separate tax structure for the U.S. Virgin Islands that mirrors the Internal Revenue Code (IRC) of 1986, as amended. Income taxes are due from every corporation, partnership, individual, association, estate, or trust that meets the filing requirements of the U.S. Internal Revenue Code. A U.S. taxpayer who is a permanent resident of the U.S. Virgin Islands satisfies his/her Virgin Islands income tax obligations by filing his/her return with and paying income taxes to the Government. Bona fide residents of the Virgin Islands are taxed by the Virgin Islands on their world-wide income. A nonresident of the U.S. Virgin Islands pays income taxes on his/her U.S. Virgin Islands source income to the Government.

The revenue is recognized in the general fund in the fiscal period for which the income tax return was filed. The revenue from income tax withholding and estimated payments are recognized in the general fund as collected, net of estimated tax refunds.

Subchapter S and C corporate income tax returns are due by the 15th day of the fourth month following the close of the calendar year and become delinquent if not paid on or before the due date. Partnership income taxes are due by April 15 of the following year and trust income taxes are due by April 15 of the following year for which the income tax was levied. Trust income taxes must be paid by the tax filing date.

For the tax year ended December 31, 2017, the income tax filing date for individuals, businesses and trust tax filings (and certain other tax filings) were extended to June 29, 2018 through disaster relief provisions of the Internal Revenue Service (IRS) following Hurricanes Irma and Maria.

Property taxes are assessed each calendar year on all taxable real property located in the U.S. Virgin Islands. The receivable is recognized, net of estimated uncollectable amounts, in the general fund in the fiscal period for which the tax is assessed.

The revenue is recognized in the general fund in the fiscal period for which the property tax is levied, provided the tax is collected within 60 days after fiscal year-end, unless the facts justify a period greater than 60 days. Receivables collected after that period, are recorded as unavailable property tax revenue.

The Office of the Tax Assessor is responsible for the assessment of all taxable real property. Noncommercial real property subject to taxation is reassessed once every five years and commercial real property subject to taxation is reassessed biannually. The Tax Assessor prepares an annual assessment roll and schedule of collections for each parcel of real property that is used by The Office of the Tax Collector, as the basis for issuing tax bills to all taxpayers in the U.S. Virgin Islands.

Property taxes are to be levied by May 15 of each year in the name of the record owner on January 15 of the same year. The taxes are due on June 30 and become delinquent if not paid by August 31.

For businesses with gross receipts of $225,000 per annum or less, gross receipts taxes are levied on an annual basis based on the amount of gross receipts exceeding $9,000 per month. Businesses with annual gross receipts of more than $225,000 are levied on a monthly basis with no $9,000 per month exemption. The gross receipts tax rate is 5.0% of sales and service revenue.

Monthly gross receipts tax filings are due within 30 calendar days following the last day of the calendar month collected. Annual gross receipts tax filings are due within 30 calendar days following the last day of the calendar year.

(b) Other Receivables

In addition to tax receivables, the PG receives tobacco settlement right payments in connection with a Master Settlement Agreement with certain participating cigarette manufacturers. Under the terms of the agreement, the U.S. Virgin Islands receives .0173593% of annual payments made under the agreement. As of September 30, 2017, the PG reported a receivable of $678,000 for tobacco settlement right payments as included in the accompanying statement of net position.

On November 14, 2011, the PG entered into a loan agreement on behalf of GERS in the amount of $13.0 million, at an interest rate of 4.91% and a maturity date of December 15, 2016. The loan was secured by pledged property tax receipts for years prior to and including 2005.

The loan was not paid by the due date of December 15, 2016, and was converted to a two-year term loan to be paid with pledged property tax revenues and pledged gross receipts tax revenues. At September 30, 2017, the outstanding balance of the loan was $2.4 million included in GERS investment loan balance.

Component Units

Receivables for the discretely presented component units at September 30, 2017, consist of the following (expressed in thousands):

Utility service charges	$ 20,763
Patients	18,386
Students	3,775
Port fees	3,225
Other*	5,505
Total	$ 51,654

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

Pension Trust Fund

Loans and advances to members of GERS at September 30, 2017, consist of the following (expressed in thousands):

Personal loans	$ 93,710
Mortgage loans	7,014
Automobile loans	29
	100,753
Less allowance for losses	(970)
Total	$ 99,783

7. Unavailable Revenues

The components of unavailable revenues of the general fund and PFA debt service fund as of September 30, 2017, consist of the following (expressed in thousands):

	General	PFA Debt Service	Total
Property taxes	$ 25,913	$ -	$ 25,913
Income taxes	87,916	-	87,916
Gross receipts taxes	-	17,318	17,318
Total	$ 113,829	$ 17,318	$ 131,147

8. Interfund Transfers

Interfund transfers for the year ended September 30, 2017, consist of the following (expressed in thousands):

Transfers from/to	General	PFA Debt Service	PFA Capital Projects	Other Governmental	West Indian Company	Total
General	$ -	$ 95,048	$ -	$ 1,100	$ 700	$ 96,848
PFA Debt Service	98	-	624	-	-	722
Other governmental	2,356	2,315	-	-	-	4,671
Other business-type	1,000	-	-	-	-	1,000
Total	$ 3,454	$ 97,363	$ 624	$ 1,100	$ 700	$ 103,241

Interfund transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. The most significant transfer to the general fund from other governmental funds included a $95.0 million transfer from the PFA debt service fund (a major governmental fund) representing gross receipt tax revenues available after bond debt service requirements.

Significant transfers made from the general fund include a transfer of $1.0 million to the Bureau of Motor Vehicles Fund (a non-major business-type fund); $1.0 million to the St. Croix Capital Improvement Fund (a non-major governmental fund); and a transfer of $1.1 million to the Crisis Intervention Fund (a non-major governmental fund).

Due From/To Other Funds

Due from/to other funds	General	PFA Capital Projects	Other Governmental	Other Business Type	Total
General	$ -	$ -	$ 23,340	$ 300	$ 23,640
Other governmental	23,500	-	-	-	23,500
Total Governmental Funds	23,500	-	23,340	300	47,140
West Indian Company	7,350	-	-	-	7,350
viNGN	-	36,805	-	-	36,805
Other enterprise	200	324	2,068	-	2,592
Total Proprietary Funds	7,550	37,129	2,068	-	47,047
Total	$ 31,050	$ 37,129	$ 25,408	$ 300	$ 93,887

The due from/to other funds includes the following amounts the general fund owes to other funds: $4.9 million due to the Emergency Molasses Fund (a non-major governmental fund) for unpaid appropriations; $3.5 million due to the PFA special revenue fund for unpaid matching funds; and $1.4 million due to the Elected Governor Retirement Fund.

The amount due from other funds by the general fund is mainly composed of $20.3 million due from the District Street Lighting Fund (a non-major governmental fund) and $2.7 million from the Bond Proceeds Fund (a non-major governmental fund).

The amount due to other governmental funds by the general fund includes $12.0 million due to the St. Croix Capital Improvement Fund from the general fund for capital improvement projects; $832,000 due from the Virgin Islands Lottery to the Pharmaceutical Assistance to the Aged Fund; and $916,000 due from the Virgin Islands Lottery to the Virgin Islands Educational Initiative Fund consisting primarily of 15% of revenue derived from lottery games under contract between the Virgin Islands Lottery and private contractors be transferred to these funds.

The due to PFA Capital Projects funds includes $36.8 million due from the Virgin Islands Next Generation Network (viNGN), a major business-type fund in connection with start-up costs of the broadband project.

9. Restricted Assets

Primary Government

Restricted assets of proprietary funds and business-type activities as of September 30, 2017, include cash and cash equivalents as follows (expressed in thousands):

Unemployment insurance funds	$ 5,328
WICO debt service funds	2,534
Total	$ 7,862

These funds were restricted to repay loans payable to the U.S. Treasury and WICO's loan for capital asset purchases.

Component Units

Restricted assets of discretely presented component units as of September 30, 2017, include cash and cash equivalents, investments, and receivables as follows (expressed in thousands):

Cash and cash equivalents:	
Debt service and sinking fund requirements	$ 44,536
Endowment funds	182
HUD project funds	909
Revolving loan funds	25,412
Construction funds	16,714
Renewal and replacement funds	1,269
Other	6,834
Total	95,856
Investments:	
Debt service and sinking fund requirements	18,042
Construction funds	21,856
Endowment funds	56,217
Renewal and replacement funds	4,649
Revolving loan funds	6,676
Other	551
Total	107,991
Other:	
Pledged funds	20,850
Total	$ 224,697

10. Capital Assets

Primary Government

Capital assets activity for governmental activities for the year ended September 30, 2017, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers/ Adjustment	Impairment/ Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 227,558	$ -	$ -	$ -	$ 227,558
Construction in progress	55,645	52,383	(26,797)	(5,228)	76,003
Total capital assets not being depreciated	283,203	52,383	(26,797)	(5,228)	303,561
Capital assets being amortized and depreciated:					
Land improvements	7,825	-	281	-	8,106
Infrastructure	337,595	2,475	1,888	(201,172)	140,786
Buildings and improvements	541,578	1,565	23,358	(161,257)	405,244
Machinery and equipment	197,441	15,387	1,270	(13,049)	201,049
Total capital assets being amortized and depreciated	1,084,439	19,427	26,797	(375,478)	755,185
Less accumulated amortization and depreciation for:					
Land improvements	(4,639)	(231)	-	-	(4,870)
Infrastructure	(105,653)	(5,313)	-	73,004	(37,962)
Buildings and improvements	(244,278)	(32,417)	-	80,044	(196,651)
Machinery and equipment	(163,819)	(18,508)	-	6,279	(176,048)
Total accumulated amortization and depreciation	(518,389)	(56,469)	-	159,327	(415,531)
Total capital assets being amortized and depreciated, net	566,050	(37,042)	26,797	(216,151)	339,654
Governmental activities capital assets, net	$ 849,253	$ 15,341	$ -	$ (221,379)	$ 643,215

Depreciation and amortization expense is charged to functions of the PG for the year ended September 30, 2017, as follows (expressed in thousands):

Governmental Activities:	
General government	$ 30,175
Public safety	1,496
Health	2,266
Education	6,089
Public housing and welfare	1,247
Culture and recreation	2,130
Transportation and communication	13,066
Total	$ 56,469

Capital assets activity for business-type activities for the year ended September 30, 2017, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers/ Adjustment	Impairment/ Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 5,178	$ -	$ -	$ -	$ 5,178
Construction in progress	8,191	8,871	(12,218)	-	4,844
Total capital assets not being depreciated	13,369	8,871	(12,218)	-	10,022
Capital assets being amortized and depreciated:					
Land improvements	348	-	-	-	348
Buildings and improvements	79,506	142	11,294	(2,601)	88,341
Machinery and equipment	79,135	1,282	924	(5,797)	75,544
Intangible assets	20,974	9,800	-	-	30,774
Total capital assets being amortized and depreciated	179,963	11,224	12,218	(8,398)	195,007
Less accumulated amortization and depreciation for:					
Land improvements	(342)	(1)	-	-	(343)
Buildings and improvements	(38,904)	(3,321)	-	302	(41,923)
Machinery and equipment	(22,501)	(5,657)	-	2,017	(26,141)
Intangible assets	(2,764)	(931)	-	-	(3,695)
Total accumulated amortization and depreciation	(64,511)	(9,910)	-	2,319	(72,102)
Total capital assets being amortized and depreciated, net	115,452	1,314	12,218	(6,079)	126,905
Business-type activities capital assets, net	$ 128,821	$ 10,185	$ -	$ (6,079)	$ 132,927

Depreciation and amortization expense is charged for the year ended September 30, 2017, as follows (expressed in thousands):

Business-type Activities:	
WICO – depreciation	$ 2,962
viNGN - depreciation	5,077
Other enterprise funds	1,871
Total	$ 9,910

Component Units

Capital assets activity for discretely presented component units for the year ended September 30, 2017, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers	Impairment/ Disposals	Ending Balance*
Capital assets not being depreciated:					
Land	$ 108,339	$ 3,555	$ -	$ (670)	$ 111,224
Construction in progress	92,799	68,995	(35,673)	(543)	125,578
Total capital assets not being depreciated	201,138	72,550	(35,673)	(1,213)	236,802
Capital assets being depreciated:					
Buildings and improvements	1,806,657	163,610	24,670	(96,099)	1,898,838
Airport and marine terminal facilities	170,962	-	3,774	(334)	174,402
Personal property and equipment	166,604	4,348	5,006	(35,548)	140,410
Intangible assets	2,919	-	-	-	2,919
Total capital assets being amortized and depreciated	2,147,142	167,958	33,450	(131,981)	2,216,569
Less accumulated amortization and depreciation for:					
Buildings and improvements	(1,084,952)	(50,058)	1,645	31,733	(1,101,632)
Airport and marine terminal facilities	(131,087)	(6,694)	-	81	(137,700)
Personal property and equipment	(112,260)	(8,903)	-	29,301	(91,862)
Intangible assets	(2,021)	(195)	-	-	(2,216)
Total accumulated amortization and depreciation	(1,330,320)	(65,850)	1,645	61,115	(1,333,410)
Total capital assets being amortized and depreciated, net	816,822	102,108	35,095	(70,866)	883,159
Component unit capital assets, net	$ 1,017,960	$ 174,658	$ (578)	$ (72,079)	$ 1,119,961

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

**Title to Virgin Islands Waste Management Authority's capital assets has not been formally transferred over from the PG.*

Depreciation expense charged by each component unit for the year ended September 30, 2017, is as follows (expressed in thousands):

Virgin Islands Housing Authority	$ 7,505
Virgin Islands Port Authority	21,049
Virgin Islands Water and Power Authority:	
Electric System	16,177
Water System	1,386
Virgin Islands Government Hospital and Health Facilities Corporation:	
Roy L. Schneider Hospital	4,045
Juan F. Luis Hospital	4,970
University of the Virgin Islands	2,979
Other component units*	7,739
Total	$ 65,850

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

Hurricanes Irma and Maria

As indicated earlier, the PG and its component units were impacted by Hurricanes Irma and Maria and certain assets sustained physical damage, were destroyed, and other assets required considerable effort to restore their service utility.

The organizations evaluated their respective capital assets in accordance with GASB Statement No. 42 and realized their respective losses from impairment, net of insurance recoveries. The PG recognized a loss from impairment amounting to $221.2 million for governmental activities and $6.1 million for business type activities.

The discretely presented component units have recognized impairment losses, net of insurance recoveries, for the year ended September 30, 2017, as follows (expressed in thousands):

Virgin Islands Port Authority	$ 28,884
Virgin Islands Government Hospital and Health Facilities Corporation:	
Roy L. Schneider Hospital	11,994
Juan F. Luis Hospital	12,358
University of the Virgin Islands	10,373
Other component units*	656
Total	$ 64,265

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

The amount of the impairment losses for damaged capital assets is based on calculations using a combination of the restoration cost approach and a physical verification approach. Under the restoration cost approach, the amount of impairment is derived from the estimated costs to restore the utility of the capital asset. The estimated restoration cost can be converted to historical cost either by restating the estimated restoration cost using an appropriate cost index or by applying a ratio of the estimated restoration cost over estimated replacement cost to the carrying value of the capital asset.

The organizations also conducted physical inspections of assets to determine and estimate the extent of the damages. As a result, assets fully depreciated prior to the hurricanes would have an impairment loss of $0, regardless of the damage.

Actual repairs to damaged capital assets are expected to far exceed the calculated impairment losses. Any insurance recoveries received have been used to offset the impairment losses, in accordance with the guidelines of GASB Statement No. 42. The impairment losses, net of insurance recoveries received during the year, are reported as a special item in the accompanying financial statements.

11. Long-Term Liabilities

Primary Government

The change in long-term bonds and loans for governmental activities is as follows for the year ended September 30, 2017, (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Matching (Excise Tax) Bonds						
2013 Series B Revenue and Refunding Bonds	$ 46,295	$ -	$ 5,250	$ 41,045	$ -	$ 41,045
2013 Series A Revenue and Refunding Bonds	33,790	-	2,320	31,470	7,555	23,915
2012 Series A Revenue Bonds	141,015	-	850	140,165	900	139,265
2010 Series A & B Revenue Bonds	390,570	-	2,395	388,175	2,520	385,655
2009 Series A Revenue Bonds (Cruzan)	35,575	-	705	34,870	740	34,130
2009 Series A1, A2, B & C Revenue and Refunding Bonds	316,815	-	29,260	287,555	30,730	256,825
2009 Series A Revenue Bonds (Diageo)	237,095	-	4,890	232,205	5,235	226,970
Total	1,201,155	-	45,670	1,155,485	47,680	1,107,805
Gross Receipts Tax Bonds						
2014 Series D Revenue Bonds	5,600	-	175	5,425	190	5,235
2014 Series C Revenue and Refunding Bonds	242,495	-	4,995	237,500	5,240	232,260
2014 Series A Revenue Bonds	48,160	-	1,560	46,600	1,635	44,965
2012 Series A & B Revenue and Refunding Bonds	194,500	-	12,780	181,720	13,180	168,540
2012 Series C Revenue Bonds	31,725	-	1,775	29,950	1,820	28,130
2006 Series A Revenue Bonds	199,830	-	3,240	196,590	3,360	193,230
Total	722,310	-	24,525	697,785	25,425	672,360
Tobacco Settlement Bonds						
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	7,290	-	-	7,290	-	7,290
2001 Series A Tobacco Bonds	7,845	-	1,665	6,180	-	6,180
Total	15,135	-	1,665	13,470	-	13,470
Federal Highway Bonds						
2015 Bonds	85,415	-	3,335	82,080	3,470	78,610
Total	2,024,015	-	75,195	1,948,820	76,575	1,872,245
Plus (less):						
Bonds premium	57,799	-	6,101	51,698	-	51,698
Bonds discount	(2,692)	-	(217)	(2,475)	-	(2,475)
Bonds accretion	7,053	960	-	8,013	8,013	-
Total bonds payable, net	2,086,175	960	81,079	2,006,056	84,588	1,921,468

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Loans						
Series 2016A Note	-	9,485	762	8,723	2,136	6,587
Series 2014E Note	-	20,000	-	20,000	15,000	5,000
Series 2014B Note	10,000	-	2,000	8,000	2,000	6,000
Series 2013A Note	2,200	-	1,347	853	853	-
Series 2012A Note	12,744	-	1,296	11,448	268	11,180
Series 2011B Note	4,997	-	1,862	3,135	2,492	643
Total loans payable	29,941	29,485	7,267	52,159	22,749	29,410
Total governmental activities bonds and loans payable	$ 2,116,116	$ 30,445	$ 88,346	$ 2,058,215	$ 107,337	$ 1,950,878

The change in other long-term liabilities for governmental activities is as follows for the year ended September 30, 2017, (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Accrued compensated absences	$ 33,524	$ 2,627	$ -	$ 36,151	$ 10,923	$ 25,228
Retroactive union arbitration	195,286	-	-	195,286	-	195,286
Litigation	13,783	3,027	665	16,145	331	15,814
Landfill closure and post closure costs	90,958	6,965	-	97,923	-	97,923
Post-employment benefits	357,224	120,214	-	477,438	-	477,438
Total	$ 690,775	$ 132,833	$ 665	$ 822,943	$ 11,254	$ 811,689

Accrued compensated absences, retroactive union arbitration, litigation, landfill closure and post-closure costs, and post-employment benefits to retirees such as health insurance, are generally expected to be liquidated with resources derived from the general fund.

At September 30, 2017, the PG reported a net pension liability of $3.5 billion for its proportionate share of the net defined benefit pension liability administered by GERS. The net pension liability is valued as of September 30, 2016, determined by an actuarial valuation as of that date.

The change in pension liabilities for governmental activities is as follows for the year ended September 30, 2017, (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Net pension liability	$ 3,065,617	$ 527,078	$ 57,178	$ 3,535,517	$ -	$ 3,535,517

The changes in long-term liabilities for business-type activities are as follows for the year ended September 30, 2017, (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Workers compensation claims	$ 38,459	$ 5,760	$ 3,757	$ 40,462	$ 3,019	$ 37,443
Loan payable – U.S. Treasury	69,165	1,493	3,664	66,994	66,994	-
Note payable – WICO	32,181	11,008	523	42,666	586	42,080
Total	$ 139,805	$ 18,261	$ 7,944	$ 150,122	$ 70,599	$ 79,523

Debt Margin

Pursuant to 48 U.S.C. Section 1574(b)(i) of the Revised Organic Act, the Government may issue revenue bonds for public improvements or undertakings authorized by an act of the Legislature, without limitation as to principal amount. Such revenue bonds are payable solely from the revenue directly derived from and attributable to such public improvements or undertakings. Pursuant to 48 U.S.C. Section 1574(b)(ii), the Government is authorized to issue general obligation bonds for any public purpose provided that no such indebtedness is more than 10% of the aggregate assessed valuation of the taxable real property in the U.S. Virgin Islands. In addition, pursuant to 48 U.S.C. Section 1574(a) (Public Law 94-932), the U.S. Virgin Islands is authorized to issue bonds or other obligations in anticipation of the matching funds to be received from the federal government pursuant to 26 U.S.C. Section 7652(b)(3). There is no legal limit on the value of bonds that the Government may issue pursuant to 48 U.S.C. Section 1574(a). The Legislature of the U.S. Virgin Islands must authorize all bond issuances. PFA is authorized to issue bonds for financing any project or for the purpose authorized by the Legislature. Given that PFA's powers to issue bonds are derived from 48 U.S.C. Section 1574(b), the bonds issued by PFA are subject to the limitations of said 48 U.S.C. Section 1574(b).

On August 23, 1999, the Legislature amended the V.I. Code to add a Mandatory Balanced Budget Provision. Such provisions, specifically Title 2 of the V.I. Code Section 256, provide that the amount of debt of the Government existing on October 1, 2000 shall be the debt limit of the Government, exclusive of bond principal and interest that may become due. The debt limit specified under Title 2 of the V.I. Code Section 256 does not include bonds authorized by law for which a specific source of revenue is identified and committed to retiring those bonds.

As used in Title 2 of the V.I. Code Section 256, the term "debt" means the total accumulated unpaid obligations that are due and payable, including unpaid income tax refunds, amounts owed to vendors, and current year unpaid debt service obligations, if any. As used in the statute, the term "debt" does not include that portion of principal or interest on bonds that is not yet due and payable.

(a) Bonds Payable

Bonds payable outstanding at September 30, 2017, are comprised of the following (expressed in thousands):

	Maturity	Interest Rate (%)	Balance
Matching (Excise) Tax Bonds			
2013 Series B Revenue and Refunding Bonds	2018 - 2024	3.00 - 5.00	$ 41,045
2013 Series A Revenue and Refunding Bonds	2018 - 2024	5.00 - 5.25	31,470
2012 Series A Revenue Bonds	2022 - 2032	4.00 - 5.00	140,165
2010 Series A & B Revenue Bonds	2012 - 2029	4.00 - 5.25	388,175
2009 Series A Revenue Bonds (Cruzan)	2010 - 2039	3.00 - 6.00	34,870
2009 Series A1, A2, B & C Revenue and Refunding Bonds	2010 - 2039	3.00 - 5.00	287,555
2009 Series A Revenue Bonds (Diageo)	2013 - 2037	6.00 - 6.75	232,205
Total			1,155,485
Gross Receipts Tax Bonds			
2014 Series D Revenue Bonds	2015 - 2033	6.03	5,425
2014 Series C Revenue and Refunding Bonds	2015 - 2044	4.50 – 5.00	237,500
2014 Series A Revenue Bonds	2015 - 2034	5.00	46,600
2012 Series A & B Revenue and Refunding Bonds	2017 - 2032	2.25 - 5.25	181,720
2012 Series C Revenue Bonds	2017 - 2042	3.00 - 5.00	29,950
2006 Series A Revenue Bonds	2007 - 2029	3.50 - 5.00	196,590
Total			697,785
Tobacco Settlement Bonds			
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 – 7.63	7,290
2001 Series A Tobacco Bonds	2031	4.62 – 5.13	6,180
Total			13,470
Federal Highway Bonds			
2015 Bonds	2016 - 2033	3.00 – 5.00	82,080
Total bonds payable			1,948,820
Plus (Less):			
Bonds premium			51,698
Bonds discount			(2,475)
Bonds accretion			8,013
Total bonds payable, net			$ 2,006,056

Matching (Excise) Tax Bonds

The matching funds pledged for the payment of the bonds consist of annual advance payments received from the U.S. Department of the Treasury of excise taxes imposed and collected under the Internal Revenue laws of the United States on rum products produced in the U.S. Virgin Islands and exported to the United States from the Virgin Islands.

The amount required to be remitted to the Government by the U.S. Department of the Treasury is an amount no greater than the total amount of local revenue (primarily taxes) collected by the Government in each fiscal year. As a result, the term "matching fund revenue" is used to denote these payments.

All amounts to be received by the Government from federal rum excise tax are deposited directly into trust accounts in accordance with the Indenture of Trust for bond debt service payments. Estimated prepayments of matching fund revenues are made to the Government prior to the beginning of each fiscal year, subject to adjustment for local revenue actually collected by the U.S. Department of the Treasury during such year. Such adjustments are made to the estimated prepayments for a subsequent fiscal year. Prepayments of matching fund revenue are recorded as deferred revenue in the accompanying statement of net position and recognized as income in the subsequent fiscal year. The principal and interest on the matching tax bonds will end in various periods through year 2037.

In fiscal year 2017, pledged matching rum excise tax revenues represented 48.8% of total rum excise revenues and pledged gross receipts tax revenues represented 40.8% of total gross receipt tax revenues. Payments of bond principal and interest from matching rum excise tax revenues amounted to $45.7 million and $62.1 million, respectively. Payment of bond principal and interest from pledged gross receipts taxes amounted to $31.8 million and $35.4 million, respectively.

The rate of federal rum excise tax is determined by Congress. In November 1999, Congress increased the federal rum excise tax rate from $10.50 to $13.25 per proof gallon. Since then, Congress has extended the higher rate nine times. On February 9, 2018, Congress extended the rate to December 31, 2021 with the enactment of the Bipartisan Budget Act of 2018.

2013 Series B Revenue and Refunding Bonds

On October 17, 2013, PFA issued the 2013 Series B Revenue and Refunding Bonds (the 2013 Series B Bonds), the proceeds of which amounted to $51.4 million. The Government has pledged matching funds, described above, for the timely payment of the principal and interest. The 2013 Series B Bonds bear interest at rates ranging from 3.00% to 5.00% and mature on October 1, 2018 through October 1, 2024. The bonds were issued to: (i) refund a portion of the 2004 Series A Bonds amounting to $48.3 million; (ii) fund the debt service requirements of the bond issuance; and (iii) pay the costs of issuing the bonds. The 2013 Series B Bonds maturing on October 1, in the years 2018 and 2024 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

2013 Series A Revenue and Refunding Bonds

On September 19, 2013, PFA issued the 2013 Series A Revenue and Refunding Bonds (the 2013 Series A Bonds), the proceeds of which amounted to $36.0 million. The Government has pledged matching funds, described above, for the timely payment of the principal and interest. The 2013 Series A Bonds bear interest at rates ranging from 5.00% to 5.25%, and mature on October 1, 2018 through October 1, 2024.

The bonds were issued to: (i) provide a partial advance refunding of the 2004 Series A Bonds amounting to $14.7 million, provide a partial advance refunding of the 2009 Series A-1 Bonds amounting to $1.6 million, and provide a partial advance refunding of the 2009 Series B Bonds amounting to $16.7 million; (ii) fund the debt service requirements of the bond issuance; and (iii) pay the costs of issuing the bonds. The advance refunding resulted in a net present value economic gain of $4.2 million.

The 2013 Series A Bonds maturing on October 1, in the years 2018 and 2024 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption beginning October 1, 2015.

2012 Series A Revenue Bonds

On September 7, 2012, PFA issued the 2012 Series A Revenue Bonds (the 2012 Series A Bonds), the proceeds of which amounted to $142.6 million. The Government has pledged matching funds, described above, for the timely payment of the principal and interest. The 2012 Series A Bonds bear interest at rates ranging from 4.00% to 5.00% and mature from 2022 through 2032. The bonds were issued to: (i) provide working capital to the PG to finance various operating expenses; (ii) fund the debt service requirements of the bond issuance; and (iii) pay the costs of issuing the bonds.

The 2012 Series A Bonds maturing on October 1, in the years 2022, 2027, and 2032 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

2010 Series A & B Revenue Bonds

On July 8, 2010, PFA issued the 2010 Series A & B Revenue Bonds, the proceeds of which amounted to $399.1 million. The Government has pledged matching funds for the timely payment of the principal and interest. The 2010 Series A Bonds, amounting to $305.0 million, bear interest at rates ranging from 4.00% to 5.00% mature from 2012 through 2029. The 2010 Series B Bonds, amounting to $94.1 million, bear interest at rates ranging from 4.25% to 5.25% and mature from 2020 through 2029.

The bonds were issued to: (i) to finance various operating expenses of the PG; (ii) refinance a portion of the outstanding Series 2009 B1 and B2 Notes; (iii) fund the debt service requirements of the bond issuance, and (iv) to pay the costs of issuing the bonds.

The 2010 Series A Bonds maturing on October 1, in the years 2020, 2025, and 2029 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

The 2010 Series B Bonds maturing on October 1, in the years 2025 and 2029 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

2009 Series A Revenue Bonds (Cruzan)

On December 17, 2009, PFA issued the 2009 Series A Revenue Bonds (the Cruzan Bonds) amounting to $39.2 million. The Government has pledged matching funds generated from the sale of Cruzan rum products for the timely payment of the principal and interest. The Cruzan Bonds bear interest at rates ranging from 3.00% to 6.00% and mature from 2010 through 2039. The proceeds of the Cruzan Bonds were used to: (i) finance the costs of a wastewater treatment facility and renovations at the Cruzan VIRIL, Ltd. (Cruzan) rum distillery on the island of St. Croix; (ii) fund debt service reserve accounts; and (iii) pay the costs of issuing the bonds.

The bonds maturing October 1, 2039, are subject to mandatory sinking fund redemptions beginning October 1, 2020, at a redemption price equal to 100% of the principal amount plus interest accrued to the date of redemption.

In association with the issuance of the Cruzan Bonds, PFA entered into an agreement with Cruzan VIRIL, Ltd. (Cruzan) on October 6, 2009. Provisions of the agreement call for payments of excess matching funds, after debt service, debt service reserve, and sinking fund redemption payments, to the Government and Cruzan of 60%-80%, and 54%-60% respectively. Excess matching fund payments to Cruzan amounted to $35.5 million for the year ended September 30, 2017.

2009 Series A1, A2, B & C Revenue and Refunding Bonds

On October 1, 2009, PFA issued the 2009 Series A1, A2, B & C Revenue and Refunding Bonds, the proceeds of which amounted to $458.8 million. The Government has pledged matching funds for the timely payment of principal and interest. The 2009 Series A1 Bonds amounted to $86.4 million. The 2009 Series A1 Bonds bear interest at rates ranging from 3.00% to 5.00% and mature from 2010 through 2039. The Series A1 Bonds were issued to: (i) fund certain capital projects; (ii) fund debt service reserve accounts; and (iii) pay certain costs of issuing the bonds.

The 2009 Series A2 Bonds amounted to $8.7 million. The 2009 Series A2 Bonds bear an interest rate of 3.00% and mature from 2010 through 2011. The Series A2 Bonds were issued to: (i) fund certain capital projects; (ii) fund debt service reserve accounts; and (iii) pay certain costs of issuing the bonds.

The 2009 Series B Bonds amounted to $266.3 million, bear an interest rate of 5.00%, and mature from 2010 through 2025. The 2009 Series B Bonds were issued to: (i) refund the 1998 Series A Bonds; (ii) fund debt service reserve accounts; and (iii) pay certain costs of issuing the bonds.

The 2009 Series C Bonds amounted to $97.5 million, bear an interest rate of 5.00% and mature from 2010 through 2022. The 2009 Series C Bonds were issued to: (i) refund the 1998 Series E Revenue and Refunding Bonds; (ii) fund debt service reserve accounts; and (iii) pay certain costs of issuing the bonds.

The 2009 Series A1, B & C Bonds are subject to optional sinking fund installment redemptions beginning October 1, 2019 at a redemption price equal to 100% of the principal amount, plus interest accrued, to the date of redemption.

2009 Series A Revenue Bonds (Diageo)

On July 9, 2009, PFA issued the 2009 Series A Bonds (the Diageo Bonds) amounting to $250.0 million. The Diageo Bonds mature from 2013 through 2037 at interest rates ranging from 6.00% to 6.75%. The proceeds of the bonds were issued to: (i) provide a grant to Diageo USVI, Inc. (the producer of Captain Morgan rum products) to construct a rum distillery and warehouse on the island of St. Croix; (ii) to redeem the Subordinated Revenue Bond Anticipation Notes Series 2009A issued to finance preliminary costs of the Diageo construction project; (iii) to fund debt service reserve accounts; and (iv) to finance capitalized interest and costs associated with the issuance of the bonds.

The PG has pledged matching funds generated from the sale of Captain Morgan rum products for the timely payment of the principal and interest. The Diageo Bonds maturing on or after October 1, 2020 are subject to optional redemption on or after October 1, 2019, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

In association with the issuance of the Diageo Bonds, the Government entered into an agreement with Diageo USVI, Inc. on June 17, 2008. Provisions of the agreement call for payments of excess matching funds, after debt service, debt service reserve, and sinking fund redemption payments to Diageo of 49.5% - 57% to provide marketing support payments, production incentive payments, continuation of molasses subsidies and other tax incentives to attract Diageo USVI, Inc. as part of the rum industry in the U.S. Virgin Islands. Marketing and incentive payments to Diageo USVI, Inc. amounted to $47.3 million for the year ended September 30, 2017. As of September 30, 2017, an additional $13.5 million was due to Diageo USVI, Inc. as part of a negotiated settlement of prior year adjustments based on production.

Gross Receipts Tax Bonds

2014 Series D Revenue Bonds

On December 3, 2014, PFA issued the 2014 Series D Revenue Bonds (the 2014 Series D Bonds), the proceeds of which amounted to $5.8 million. The Government has pledged gross receipts taxes for the timely payment of the principal and interest, subject to the annual moderate-income housing fund deposit as well as prior liens or pledges. The 2014 Series D Bonds bear interest at the rate of 6.03% and mature from 2015 through 2033. The bonds were issued to: (i) fund certain capital projects; (ii) fund the debt service requirements of the bond issuance; and (iii) pay the costs of issuing the bonds.

The 2014 Series D Bonds are subject to optional redemption prior to maturity in whole or in part, in a minimum amount of $100,000 at a redemption price equal to the make-whole redemption price which is the greater of 100% of the principal amount to be redeemed or the sum of the present values of the remaining scheduled payments of principal and interest assuming a 360-day year consisting of twelve 30-day months at the Treasury Rate on the date of redemption as published in the Federal Reserve Statistical Release H.15 (519).

2014 Series C Revenue and Refunding Bonds

On November 14, 2014, PFA issued the 2014 Series C Revenue and Refunding Bonds (the 2014 Series C Bonds), the proceeds of which amounted to $247.0 million. The Government has pledged gross receipts taxes for the timely payment of the principal and interest. The 2014 Series C Bonds bear interest at rates ranging from 4.50% to 5.00%, and mature from 2015 through 2044. The bonds were issued to: (i) refund the 2003 Series A Bonds amounting to $233.3 million; (ii) finance certain capital projects amounting to $25.5 million; (iii) fund the debt service requirements of the bond issuance; and (iv) pay the costs of issuing the bonds. The current refunding of the Series 2003A Bonds resulted in a net present value economic gain of $9.6 million.

The proceeds of the 2014 Series C Bonds related to the refunding were placed in a trust to provide for all future debt service payments on the 2016 through 2034 maturities of the Series 2003A Bonds. Approximately, $235.2 million of the bond proceeds were deposited in the escrow fund account. On December 1, 2014, the 2003A Bonds were defeased through the exercise of call redemptions.

The 2014 Series C Bonds maturing on October 1, in the years 2030 and 2039 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

2014 Series A Revenue Bonds

On September 5, 2014, PFA issued the 2014 Series A Revenue Bonds (the 2014 Series A Bonds), the proceeds of which amounted to $49.6 million. The Government has pledged gross receipts taxes for the timely payment of the principal and interest. The 2014 Series A Bonds bear interest at 5.00%, and mature from 2015 through 2034. The bonds were issued to: (i) provide working capital to the Government to finance various operating expenses; (ii) fund the debt service requirements of the bond issuance; and (iii) pay the costs of issuing the bonds.

The 2014 Series A Bonds maturing on October 1, 2029 and 2034 are subject to optional redemption on or after October 1, 2024 at a redemption price equal to 100% of the principal amount plus interest accrued to the redemption date.

2012 Series A & B Revenue and Refunding Bonds

On November 20, 2012, PFA issued the 2012 Series A & B Revenue and Refunding Bonds, the proceeds of which amounted to $228.8 million. The Government has pledged gross receipts taxes, for the timely payment of the principal and interest. The 2012 Series A Bonds, amounting to $197.0 million, bear interest at rates ranging from 2.25% to 5.00% and mature from 2017 through 2032. The 2012 Series B Bonds, amounting to $31.7 million, bear interest at the rate of 5.25% and mature in 2027.The Series 2012A Bonds were issued to: (i) refund the 1999 Series A Bonds; (ii) repay the Series 2010 A1 and 2010 A2 Notes; (iii) fund the debt service requirements of the bond issuance; and (iv) pay the costs of issuing the bonds.

The 2012 Series A Bonds maturing on October 1, in the years 2017, 2022, and 2032 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption. The refunding of the Series 1999A Bonds resulted in an economic gain of net present value savings of $7.7 million.

The Series 2012 B Bonds were issued to: (i) refinance the Series 2011 A Note; (ii) fund the debt service requirements of the bond issuance; and (iii) pay the costs of issuing the bonds.

The 2012 Series B Bonds maturing on October 1, 2027, are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

2012 Series C Revenue Bonds

On December 19, 2012, PFA issued the 2012 Series C Revenue Bonds (the 2012 Series C Bonds), the proceeds of which amounted to $35.2 million. The Government has pledged gross receipts taxes, for the timely payment of the principal and interest. The 2012 Series C Bonds, bear interest at rates ranging from 3.00% to 5.00% and mature from 2017 through 2042.

The Series 2012 C Bonds were issued to: (i) finance certain operating expenses and other obligations of the Government; (ii) fund the debt service requirements of the bond issuance; and (iii) pay the costs of issuing the bonds. The 2012 Series C Bonds maturing on October 1, in the years 2017, 2030 and 2042 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

2006 Series A Revenue Bonds

On September 28, 2006, PFA issued the 2006 Series A Revenue Bonds (the 2006 Series A Bonds), the proceeds of which amounted to $219.5 million. The Government has pledged gross receipts tax revenues for the timely payment of the principal and interest. The 2006 Series Bonds bear interest at 3.50% to 5.00% and mature from 2007 through 2029. The proceeds of the bonds were issued to: (i) advance refund a portion of the Series 1999A Revenue Bonds; (ii) pay the cost of a termination fee in connection with an outstanding swap option agreement; (iii) fund certain capital projects; (iv) fund debt service reserve accounts; (v) pay certain costs of issuing the Series 2006 Bonds; and (vi) fund a net payment reserve account for a new swap agreement in connection with the refunding. The 2006 Series Bonds maturing on or before October 1, 2016, are not subject to optional redemption.

The advance refunding of the 2020 through 2029 maturities of the 1999 Series A Bonds was made to obtain lower interest rates. The economic gain obtained by this advance refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately $40.8 million and an economic gain of approximately $25.6 million.

Tobacco Settlement Bonds

2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds

On March 15, 2006, the Tobacco Settlement Financing Corporation (TSFC) issued the 2006 Tobacco Settlement Asset-Backed Bonds, Subordinated Series 2006 A, B, C & D Turbo and Capital Appreciation Bonds amounting to $48.1 million, with an issue value of $7.3 million (net of accretion of $40.8 million). The bonds are secured and payable from collections including all Tobacco Settlement Revenues to be received by TSFC, reserves, amounts held in other accounts established by the indenture and TSFC's rights under the purchase agreement.

The proceeds have been used for (i) financing several capital hospital and health development projects for the benefit of the Virgin Islands and its residents; (ii) pay certain costs of issuance relating to the Series 2006 Bonds; and (iii) fund operating costs.

Interest on the Series 2006 Tobacco Settlement Asset-Backed Bonds is not paid currently, but accretes from the date of delivery, compounded every May 15 and November 15, commencing May 15, 2006 through the final maturity date of May 15, 2035. Interest yields on the Bonds range from 6.25% to 7.63%. The series is subject to early redemption at accreted value beginning May 15, 2023, provided that the 2001 Tobacco Settlement Asset-Backed Series A Bonds have been paid in full.

2001 Series A Tobacco Bonds

On November 20, 2001, TSFC issued the 2001 Tobacco Settlement Asset-Backed Series A Bonds amounting to $23.7 million of the aggregate principal. The proceeds were used for the purpose of (i) purchasing all rights, title, and interest in certain litigation awards under the master settlement agreement (MSA) entered into by participating cigarette manufacturers; (ii) issuance of Tobacco Settlement Asset-Backed Bonds to pay the purchase price for the rights; and (iii) to provide funds for hospital and healthcare projects in the U.S. Virgin Islands.

Interest on the 2001 bonds is payable semiannually every May 15 and November 15 for the term bonds amounting to $15.5 million and convertible capital appreciation bonds amounting to $8.2 million, with a nominal value of $6.2 million.

The convertible capital appreciation bonds accrete interest prior to November 15, 2007, and accrue interest after that date. Interest on the capital appreciation bonds will compound on May 15 and November 15.

The 2001 Series A Tobacco Bonds payable at September 30, 2017, amounted to $6.2 million. Under early redemption provisions, any MSA payments exceeding annual debt service requirements of the 2001 Series A Tobacco Bonds must be applied to early redemption of principal. MSA payments and interest earnings on the trust funds during the year ended September 30, 2017, resulted in turbo redemptions of $1.67 million on May 15, 2017.

Federal Highway Bonds

On December 15, 2015, PFA issued the Series 2015 Grant Anticipation Revenue Bonds (the 2015 Bonds) in the amount of $89.9 million. The limited special obligation bonds are secured by a lien and security interest on Federal Highway Administration (FHA) grant revenues. The 2015 Bonds were issued to: (i) finance the costs of certain highway projects; (ii) establish debt service reserves; and (iii) to finance the costs of issuing the 2015 Bonds. The Government and FHA entered a Memorandum of Understanding on December 9, 2015, to document the procedures, rules, and responsibilities of the Government to supervise the capital projects and to manage debt service payments. The 2015 Bonds mature from 2016 through 2033, at interest rates ranging from 3.00% to 5.00%. Interest is payable on March 1 and September 1 annually, and principal is payable on September 1 annually.

The 2015 Bonds maturing on October 1, in the years 2025 through 2033 are eligible for early redemption at a price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

Advance Refunding/Defeasances

On June 15, 1992, PFA issued the Series 1992 Revenue Bonds. The proceeds of the Series 1992 Revenue Bonds were placed in an irrevocable trust to provide for all future debt service payments on the Series 1989 Revenue Bonds. At September 30, 2017, $4.2 million of the 1989 defeased bonds were outstanding. Assets held by irrevocable trusts for refunding of prior outstanding debt and the corresponding liabilities are not included in the Government's basic financial statements.

Future debt service requirements for bonds for which matching funds have been pledged are as follows (expressed in thousands):

Governmental Activities - Matching Fund Bonds	2009 Series A Revenue Bonds (Diageo)		2009 Series A1 & A2 Revenue Bonds		2009 Series B Revenue Bonds		2009 Series C Revenue Bonds		2009 Series A Revenue Bonds (Cruzan)	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:										
2018	$ 5,235	$ 15,387	$ 1,840	$ 3,640	$ 20,450	$ 7,462	$ 8,440	$ 2,438	$ 740	$ 2,051
2019	5,600	15,022	1,915	3,563	21,500	6,413	8,860	2,005	780	2,013
2020	5,990	14,631	2,000	3,481	22,600	5,311	9,145	1,555	820	1,973
2021	6,405	14,216	2,090	3,388	23,760	4,152	8,415	1,116	865	1,926
2022	6,845	13,777	2,195	3,286	24,975	2,934	10,345	647	920	1,872
2023-2027	41,930	61,174	12,685	14,712	46,185	5,170	7,770	194	5,530	8,434
2028-2032	58,440	44,669	16,255	11,146	-	-	-	-	7,470	6,498
2033-2037	81,815	21,282	20,865	6,529	-	-	-	-	10,075	3,885
2038-2042	19,945	673	15,265	1,170	-	-	-	-	7,670	709
Total	$ 232,205	$ 200,831	$ 75,110	$ 50,915	$ 159,470	$ 31,442	$ 52,975	$ 7,955	$ 34,870	$ 29,361

Governmental Activities - Matching Fund Bonds	2010 Series A Revenue Bonds		2010 Series B Revenue Bonds		2012 Series A Revenue Bonds		2013 Series A Revenue Bond		2013 Series B Revenue Bonds		Total Matching Excise Tax Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:												
2018	$ 2,520	$ 14,643	$ -	$ 4,833	$ 900	$ 6,927	$ 7,555	$ 1,415	$ -	$ 2,052	$ 47,680	$ 60,848
2019	2,660	14,514	-	4,833	950	6,890	7,905	1,028	-	2,052	50,170	58,333
2020	2,800	14,377	-	4,834	1,000	6,851	2,335	770	6,035	1,901	52,725	55,684
2021	2,955	14,233	1,050	4,811	1,100	6,809	2,460	645	6,335	1,592	55,435	52,888
2022	3,115	14,082	-	4,789	1,150	6,764	2,590	515	6,655	1,267	58,790	49,933
2023-2026	133,360	55,969	50,270	18,713	7,050	32,923	8,625	687	22,020	1,688	335,425	199,664
2027-2031	146,715	11,248	42,730	3,444	85,080	27,134	-	-	-	-	356,690	104,139
2032-2036	-	-	-	-	42,935	1,073	-	-	-	-	155,690	32,769
2037-2041	-	-	-	-	-	-	-	-	-	-	42,880	2,552
Total	$ 294,125	$ 139,066	$ 94,050	$ 46,257	$ 140,165	$ 95,371	$ 31,470	$ 5,060	$ 41,045	$ 10,552	$ 1,155,485	$ 616,810

Future debt service requirements for bonds for which gross receipts taxes have been pledged are as follows (expressed in thousands):

	Governmental Activities - Gross Receipts Tax Bonds							
	2006 Series A Revenue Bonds		2012 Series A Revenue Bonds		2012 Series B Revenue Bonds		2012 Series C Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:								
2018	$ 3,360	$ 9,424	$ 11,415	$ 7,090	$ 1,765	$ 1,295	$ 1,820	$ 1,434
2019	3,485	9,252	11,835	6,725	1,855	1,200	1,600	1,367
2020	3,615	9,075	12,380	6,241	1,955	1,100	1,685	1,284
2021	15,865	8,667	800	5,977	2,065	994	1,770	1,198
2022	16,295	7,942	1,140	5,939	2,175	883	1,860	1,107
2023-2027	90,945	26,638	32,380	26,389	12,755	2,527	3,815	4,684
2028-2032	63,025	4,395	69,005	13,722	2,980	78	3,215	3,993
2033-2037	-	-	17,215	430	-	-	5,490	2,887
2038-2042	-	-	-	-	-	-	7,060	1,326
2043-2047	-	-	-	-	-	-	1,635	41
Total	$ 196,590	$ 75,393	$ 156,170	$ 72,513	$ 25,550	$ 8,077	$ 29,950	$ 19,321

	Governmental Activities - Gross Receipts Tax Bonds							
	2014 Series A Revenue Bonds		2014 Series C Revenue Bonds		2014 Series D Revenue Bonds		Total Gross Receipts Tax Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:								
2018	$ 1,635	$ 2,289	$ 5,240	$ 11,685	$ 190	$ 321	$ 25,425	$ 33,538
2019	1,720	2,205	5,510	11,416	200	310	26,205	32,475
2020	1,810	2,117	5,790	11,134	215	297	27,450	31,248
2021	1,900	2,024	6,065	10,838	225	284	28,690	29,982
2022	2,000	1,927	6,385	10,526	240	270	30,095	28,594
2023-2027	11,640	7,987	34,650	47,500	1,445	1,106	187,630	116,831
2028-2032	14,955	4,679	85,995	36,082	1,955	597	241,130	63,546
2033-2037	10,940	839	71,955	7,687	955	58	106,555	11,901
2038-2042	-	-	7,205	2,832	-	-	14,265	4,158
2043-2047	-	-	8,705	675	-	-	10,340	716
Total	$ 46,600	$ 24,067	$ 237,500	$ 150,375	$ 5,425	$ 3,243	$ 697,785	$ 352,989

Future debt service requirements for bonds for which tobacco settlement revenues have been pledged are as follows (expressed in thousands):

Maturity Year	Principal	Interest
2018	$ -	$ 392
2019	-	392
2020	-	392
2021	-	392
2022	-	393
2023-2027	-	1,961
2028-2032	6,180	1,569
2033-2037	7,290	-
Plus future accretion	8,013	-
Total	$ 21,483	$ 5,491

Future debt service requirements for bonds for which Federal Highway grant revenues have been pledged are as follows (expressed in thousands):

Maturity Year	Principal	Interest
2018	$ 3,470	$ 4,104
2019	3,645	3,931
2020	3,825	3,748
2021	4,015	3,557
2022	4,220	3,356
2023-2027	24,465	13,399
2028-2032	31,225	6,640
2033-2037	7,215	361
Total	$ 82,080	$ 39,096

(b) Loans Payable

Series 2016A Note

On October 6, 2016, PFA entered into a loan agreement for the issuance of the Series 2016A Subordinate Lien Revenue Notes (Series 2016A-1 and Series 2016A-2 Notes) in an aggregate principal amount of $10.0 million. The Government has pledged gross receipts taxes for the timely payment of this Series 2016A Notes. The Series 2016-A Notes are to be repaid monthly over a 60 month period at an interest rate of 375 basis points above the LIBOR rate of 4.62%. The Series 2016A Notes were issued to (i) acquire first responder vehicles and related equipment; (ii) contract for consulting services to improve public safety in the Territory; and (iii) pay certain costs incurred for the issuance of the notes. As of September 30, 2017, the Government had drawn $8.1 million of the Series 2016A-1 Notes and $1.3 million of the Series 2016A-2 Notes.

Future debt service requirements for the Series 2016A Notes are as follows (expressed in thousands):

Year	Principal	Interest
2018	$ 2,136	$ 375
2019	2,136	272
2020	2,136	119
2021	2,137	43
2022	178	1
Total	$ 8,723	$ 810

Series 2014E Note

On November 16, 2016, PFA issued the Series 2014E-4 Subordinate Lien Revenue Anticipation Note (Series 2014E-4 Note) amounting to $20.0 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2014E-4 Note. The Series 2014E-4 Note bears interest at 6.0% and was issued to: (i) finance certain operating expenses of the Government; and (ii) fund certain costs of issuing the Series 2014E-4 Note.

Future debt service requirements for the Series 2014E-4 Note are as follows (expressed in thousands):

Year	Principal
2018	$ 15,000
2019	5,000
Total	$ 20,000

On January 2, 2018, PFA entered into the Series 2014E Fourth Omnibus Agreement converting the Series 2014E-4 Note into a term loan (the Series 2014E Gross Receipts Taxes Loan Note) to be repaid in twelve (12) monthly installments beginning January 10, 2018, with principal payments of $1.7 million plus interest at prime plus 2.5%.

Series 2014B Note

On September 12, 2014, PFA issued the Series 2014B Gross Receipts Taxes Subordinate Loan Note (Series 2014B Note) amounting to $14.0 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2014B Note. The Series 2014B Note bears interest at the 90-day LIBOR rate with 375 basis points. As of September 30, 2017, this rate was 5.07%. The Series 2014B Note will be repaid in equal principal payments of $167,000 over an eighty-four (84) month period. The Series 2014B Note was issued to: (i) to finance certain operating expenses of the PG; and (ii) to fund certain costs of issuing the Series 2014B Note.

Future debt service requirements for the Series 2014B Note are as follows (expressed in thousands):

Year	Principal	Interest
2018	$ 2,000	$ 289
2019	2,000	207
2020	2,000	126
2021	2,000	44
Total	$ 8,000	$ 666

Series 2013A Note

On May 14, 2013, PFA issued the Series 2013A Subordinate Lien Revenue Note (Series 2013A Note) amounting to $6.7 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2013A Note. Three draws have been made on the Series 2013A Note: $2.7 million was drawn on May 16, 2013 (the Series 2013A-1 drawing), $2.8 million was drawn on September 12, 2014 (the Series 2013A-2 drawing), and $1.3 million was drawn on July 18, 2016 (the Series 2013A-3 drawing). The Series 2013A Note bears interest at the 90-day LIBOR rate plus 375 basis points to be paid in thirty-six (36) monthly payments. As of September 30, 2017, this rate was 5.07%. The Series 2013A-1 and A-2 drawings were issued to: (i) finance the acquisition of a fleet of police vehicles for the PG, and (ii) to fund certain costs of issuing the Series 2013A Note.

Future debt service requirements for the Series 2013A Notes amount to $853,000 and are due by September 30, 2018.

Series 2012A Note

On October 1, 2012, PFA issued the Series 2012A Tax Increment Revenue Term Loan Note (the Series 2012A Notes) in the amount of $13.7 million. The Series 2012A Notes were issued as part of a Term Loan Note Conversion of the Series 2009A Notes which were issued to provide a loan to the PG (the Series 2009A Tax Increment Revenue Loan Note) to finance the developmental costs of a shopping complex on the island of St. Croix. The Series 2012A Notes are a term loan with twenty quarterly payments (five years) based on a twenty-five (25) year amortization schedule, with a final payment on October 1, 2018. The Notes bear interest of 300 points above the J.P. Morgan Chase Prime Rate, or 6.25%, whichever is higher.

Future debt service requirements for the Series 2012A Notes are as follows (expressed in thousands):

Year	Principal	Interest
2018	$ 268	$ 801
2019	11,180	199
Total	$ 11,448	$ 1,000

Series 2011B Note

On November 14, 2011, PFA issued the 2011 Property Tax Revenue Anticipation Note (the Series 2011B Note) in the amount of $13.0 million. The proceeds were used to pay incentive payments to government employees who elected to retire early under Act No. 7261 the "Economic Stability Act", as amended by Acts No. 7270 and 7307. The Series 2011B Note is a general obligation of the PG, secured by a first priority lien on real property taxes levied for tax years up to and including tax year 2005. Also, the PG has pledged a third subordinate lien on the gross receipts taxes, along with all fines, interest, penalties and other charges related to gross receipts taxes. Interest on the Series 2011B Note accrues monthly at the rate of 4.91% until the Series 2011B Note reached maturity on December 15, 2016. On that date, the Series 2011B Note converted to a two-year term loan with monthly payments of $216,448 and a fixed rate of 5.27%.

Future debt service requirements for the Series 2011B Note are as follows (expressed in thousands):

Year	Principal	Interest
2018	$ 2,492	$ 106
2019	643	6
Total	$ 3,135	$ 112

(c) Loan Payable - U.S. Treasury

In August 2009, the Territory reserve balance of the Unemployment Trust Fund (UTF) became inadequate to cover expenditures for unemployment compensation (UC) benefits. UC benefits are an entitlement program administered through the U.S. Treasury and the PG is legally liable to pay benefits even if the UTF becomes insolvent. As of September 30, 2017, the PG owed $67.0 million to the U.S. Treasury.

The loan was subject to interest at federal rates of 2.2256% through December 31, 2016 and 2.2124% after January 1, 2017. During 2017, the PG paid $1.5 million in interest to the U.S. Treasury on the UTF loans and had additional borrowing of $1.5 million.

(d) Note Payable - WICO

On October 18, 2013, WICO entered into a loan agreement with Banco Popular de Puerto Rico to refinance an existing loan in the amount of $28.5 million at an interest rate of 6.18% with payments based on a twenty-five (25) year amortization schedule with a final maturity in six (6) years. On July 27, 2017, WICO refinanced this loan as part of a consolidated loan with Banco Popular de Puerto Rico.

On November 12, 2014, WICO finalized an interim financing agreement with Banco Popular de Puerto Rico in the amount of $3.8 million to finance a pier construction project. The loan had an interest rate of 6.75% with payments based on a twenty-five (25) year amortization schedule, and a final maturity in six (6) years. The loan was refinanced on July 27, 2017, as part of a consolidated loan with Banco Popular de Puerto Rico.

On March 29, 2016, WICO secured a non-revolving line of credit with Banco Popular de Puerto Rico in the amount of $11.6 million to finance the refurbishment and development of a cruise ship pier. The non-revolving line of credit required interest-only payments for a term of one year at an interest rate of 5.25%, based on an amortization schedule of twenty-five (25) years. WICO extended the maturity date of the line of credit to July 31, 2017, and on July 27, 2017, refinanced the line of credit as part of a consolidated loan with Banco Popular de Puerto Rico.

The consolidated loan entered into on July 27, 2017, was in the amount of $42.7 million with a fixed interest rate of 5.25%, and an amortization period of twenty-five (25) years with final maturity in five years. Should WICO remain in compliance with the terms of the consolidated loan, then the loan may be refinanced on maturity for a new term not to exceed twenty (20) years. WICO may prepay the consolidated loan, however there is a prepayment penalty of 2% of the outstanding principal of the consolidated loan.

Security and collateral for the consolidated loan include a first-priority security interest in WICO's assets and a pledge of WICO revenues. WICO must also maintain insurance on its facilities at full replacement cost value, and business interruption insurance equal to one year's net revenues. WICO is required to pay all payments in lieu of taxes (PILOT) to the general fund of the Government and must maintain a Debt Service Reserve Fund with Banco Popular de Puerto Rico in the amount of $3.0 million. WICO received approval for the costs of issuance of the consolidated loan to be paid from the Debt Service Reserve Fund. The Fund must be replenished within one year of the closing date. At September 30, 2017, the amount held in the Debt Service Reserve Fund was $1.8 million.

WICO is also required to maintain a Debt Service Coverage Ratio Reserve with an amount equal to the shortfall, if any, between WICO's earnings before interest, taxes, depreciation, and amortization (EBITDA) and WICO's required annual debt service coverage ratio, so that net revenues are not less than 1.25 times annual debt service payments. WICO is also required to maintain a Fixed Coverage Ratio of 1.10 times EBITDA divided by the current portion of long-term debt plus interest expense, PILOT, maintenance and capital expenditures. At the date of the consolidated loan, WICO held $213,000 in the Debt Service Coverage Ratio Reserve Fund.

WICO may not declare dividends during the term of the consolidated loan and no additional equity interests may be granted without the lender's approval. At September 30, 2017, the outstanding balance of the consolidated loan was $42.7 million.

Future debt service requirements for the WICO loan are as follows (expressed in thousands).

Year	Principal	Interest
2018	$ 586	$ 2,485
2019	820	2,250
2020	859	2,211
2021	912	2,158
2022	39,489	1,754
Total	$ 42,666	$ 10,858

As of September 30, 2017, all payments on bonds and notes for the PG have been made as required and the PG is in compliance with the related covenants.

(e) Insurance Guaranty Fund Minimum Balance Requirement

Under Title 22, Chapter 10 of the VIC, the Virgin Islands Insurance Guaranty Fund is required to maintain a minimum balance of $50.0 million for claimant payments in the event of a failure of an insurance carrier. On February 10, 2012, legislation was enacted authorizing a reduction in the minimum balance to be held by the Virgin Islands Insurance Guaranty Fund from $50.0 million to $10.0 million. Effective September 30, 2019, in the event the balance in the Insurance Guaranty Fund equals or exceeds $50.0 million, amounts in excess thereof shall be deposited, at the direction of the Commissioner of Finance, into the General Fund.

Component Units

Bonds payable of discretely presented component units are those liabilities that are paid out of resources pledged by such entities. Bonds payable, outstanding at September 30, 2017, are as follows (expressed in thousands):

	Maturity	Interest Rate (%)	Balance
Bonds Payable			
Virgin Islands Water and Power Authority (Electric System):			
Bond Anticipation of 2016	2019	5.5	$ 33,960
Revenue Bonds of 2015	2025	1.60	13,000
Revenue Bonds of 2012	2025	4.00 - 6.06	56,605
Revenue Bonds of 2010	2035	4.00 - 6.85	55,935
Revenue Bonds of 2007	2031	4.50 - 5.00	57,585
Revenue Bonds of 2003	2028	4.00 – 5.00	45,525
Virgin Islands Water and Power Authority (Water System):			
Revenue Bonds of 1998	2017	5.50	3,665
Virgin Islands Port Authority:			
Series A Revenue Bonds of 2014	2033	4.00 – 5.00	24,925
Series B Revenue Bonds of 2014	2044	3.00 – 5.00	13,365
Series C Revenue Bonds of 2014	2025	2.00 – 5.00	3,920
Subtotal			308,485
Plus unamortized premium			5,701
Bonds payable, net			314,186
Less amount due within one year			(19,146)
Bonds payable, due in more than one year			$ 295,040

The changes in bonds payable for discretely presented component units are as follows for the year ended September 30, 2017 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Virgin Islands Water and Power Authority:						
Electric System	$ 243,340	$ 33,960	$ (12,135)	$ 265,165	$ 12,408	$ 252,757
Water System	7,118	-	(3,453)	3,665	3,665	-
Virgin Islands Port Authority	48,380	-	(3,024)	45,356	3,073	42,283
Total	$ 298,838	$ 33,960	$ (18,612)	$ 314,186	$ 19,146	$ 295,040

The changes in notes payable, line of credit payable, and other long-term liabilities for discretely presented component units are as follows for the year ended September 30, 2017 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Notes payable						
Virgin Islands Housing Authority	$ 870	$ -	$ (435)	$ 435	$ 435	$ -
Virgin Islands Port Authority	912	-	(39)	873	873	-
Virgin Islands Water and Power Authority:						
Electric System	476	-	(476)	-	-	-
University of the Virgin Islands	78,840	5,379	(2,230)	81,989	2,342	79,647
Other component units*	6,028	-	(645)	5,383	866	4,517
Total	$ 87,126	$ 5,379	$ (3,825)	$ 88,680	$ 4,516	$ 84,164
Line of credit payable						
Virgin Islands Water and Power Authority:						
Electric System	$ 25,128	$ 2,000	$ -	$ 27,128	$ 27,128	$ -
Water System	2,500	-	-	2,500	2,500	-
Total	$ 27,628	$ 2,000	$ -	$ 29,628	$ 29,628	$ -

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Other long-term liabilities:						
Virgin Islands Housing Authority	$ 15,861	$ 2,900	$ (3,352)	$ 15,409	$ 2,253	$ 13,156
Virgin Islands Port Authority	2,502	848	(968)	2,382	1,006	1,376
Virgin Islands Water and Power Authority:						
Electric System	56,626	155,082	-	211,708	7,831	203,877
Water System	9,722	235	-	9,957	-	9,957
Hospital and Health Facilities Corporation:						
Roy L. Schneider Hospital	3,022	324	-	3,346	3,346	-
Juan F. Luis Hospital	9,104	576	(676)	9,004	8,840	164
University of the Virgin Islands	4,526	1,643	(665)	5,504	665	4,839
Other component units*	11,560	1,516	(721)	12,355	1,235	11,120
Total	$ 112,923	$ 163,124	$ (6,382)	$ 269,665	$ 25,176	$ 244,489

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

(a) Bonds Payable

Virgin Islands Water and Power Authority – Electric System Bond Anticipation of 2016

In November 2016, the Electric System of WAPA closed on financing for $33.9 million to fund the Streetlight Conversion Project. The funding provides for (i) acquisition, assembly and installation of the light-emitting diode (LED) and solar panels; (ii) engineering and project management; and (iii) integration with WAPA's Tantalus "smart meter" network or automated metering infrastructure (AMI). The rate on the bond anticipation notes (BANs) was 5.50% maturing November 15, 2018. The Electric System refinanced the BANs prior to their maturity date. The BANs will now mature in July 2020, and the interest rate will be 7.00%.

Virgin Islands Water and Power Authority – Electric System Revenue Bonds of 2015

In November 2015, the Electric System of WAPA issued a bond series designated as 2015A Series Bond, issued in the principal amount of up to S13.0 million under the Electric Revenue Bond Resolution, as supplemented, and as further supplemented by a Fifth Supplemental Resolution adopted on September 24, 2015, as Amended and Restated on November 25, 2015. The proceeds of the 2015A Bonds will be used to finance or refinance the acquisition and installation of an automated metering system and other costs related thereto.

Virgin Islands Water and Power Authority – Electric System Revenue Bonds of 2012

In May 2012, the Electric System of WAPA issued: (i) 2012A Electric System Revenue Refunding Bonds amounting to $17.3 million; (ii) 2013B Electric System Subordinated Revenue Bonds amounting to $19.7 million; and (iii) 2013C Electric System Subordinated Revenue Bonds amounting to $32.1 million. The proceeds of the Series 2012A Bonds were used to refund the Electric System Revenue Refunding Bonds, Series 1998 and pay certain costs of issuances of the Series 2013A Bonds. The proceeds of the Series 2012B Bonds were used to refinance a portion of the Electric System Term Loan, make a deposit into the Subordinated Debt Service Reserve Fund sufficient to satisfy the Series 2012B Subordinated Debt Service Fund Requirement and pay certain costs of issuance of the Series 2012B Bonds.

The proceeds of the Series 2012C Bonds were used to refinance all or a portion of the Electric System Working Capital Lines of Credit and Overdraft Credit Facility, make a deposit into the Series 2012C Subordinated Debt Service Reserve Fund sufficient to satisfy the Subordinated Debt Service Reserve Fund Requirement and pay certain costs of issuance of the Series 2012C Bonds.

Virgin Islands Water and Power Authority – Electric System Revenue Bonds of 2010

In March 2010, the Electric System of WAPA issued $39.1 million 2010A Electric System Revenue Refunding Bonds; $9.0 million 2010B Electric System Revenue Bonds; and $37.3 million 2010C Electric System Revenue Refunding Bonds. The proceeds of the Series 2010A Bonds were used to: i) fund a portion of the cost of certain capital expenditures, Series 1998; and ii) pay certain costs of issuance of the Series 2010A Bonds. The proceeds of the Series 2010B and 2010C Bonds were used to: i) finance certain capital expenditures temporarily funded through draws on a line of credit ($9.0 million) and ii) to make certain deposits into the Debt Service Revenue Fund sufficient to satisfy the Debt Service Reserve Fund requirement. The proceeds of the three series were also used to pay certain costs of issuance of the 2010A, 2010B, and 2010C Revenue and Refunding Bonds.

Virgin Islands Water and Power Authority – Electric System Revenue Bonds of 2007

In June 2007, the Electric System of WAPA issued $57.6 million 2007A Electric System Subordinated Revenue Bonds, to pay certain costs of issuance of the bonds, make certain required deposits to the Subordinated Debt Service Fund to finance the costs of certain capital improvements, refinance capital improvements funded through draws on a Line of Credit, and to reinstall a $10.0 million Line of Credit.

Virgin Islands Water and Power Authority – Electric System Revenue Bonds of 2003

In June 2003, the Electric System of WAPA issued the Electric System Revenue Bonds, Series 2003, amounting to $69.9 million. The proceeds from the bonds were used to finance capital improvements, repay $18.0 million of then outstanding lines-of-credit, cover underwriters' costs, and establish a debt service fund. The Series 2003 Bonds maturing on or after July 1, 2023 are subject to redemption prior to their stated maturity date, at the option of the Electric System, on or after July 1, 2013, as a whole or in part at any time, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. Under the terms of the Bond Resolution relating to the Electric System Revenue and Refunding Bonds, payment of the principal and interest is secured by an irrevocable lien on the Electric System's net revenue, (exclusive of any funds that may be established pursuant to the Bond Resolution for certain specified purposes), including the investments and income, if any, thereof.

Under the General Resolution, the Authority is required to maintain a Debt Service coverage ratio at least equal to 1.25 times (125%) the principal of and interest on all Outstanding Senior Bonds for the current and each future fiscal year (the Senior Coverage). Under the Electric System Subordinated Revenue Bond Resolution, adopted by WAPA on May 17, 2007, as amended and supplemented (the Subordinated Bond Resolution), WAPA must satisfy the Debt Service coverage ratio of the General Resolution for the Senior Bonds, must maintain a Subordinated Debt Service coverage ratio at least equal to 1.15 times (115%) the principal of and interest on all Outstanding Bonds (the Senior and Subordinate Coverage) and all Outstanding Subordinated Bonds for the current and each future fiscal year, and must maintain at least 1.0 times (100%) the Maximum Aggregate Debt Service for each such fiscal year (total debt coverage).

For the year ended June 30, 2017, the Electric System's Debt Service Coverage ratio was 1.92 for total Debt Coverage. Section 606(2) of the Resolution provides that if the Authority fails to achieve such 1.00 coverage in a particular year, the Electric System must "take whatever steps it can to produce the amount of net electric revenues required in the following fiscal year." Section 701 (3) of the Resolution relates to covenant defaults and makes them an event of default if such covenant default continues for 60 days after notice unless the Electric System is proceeding with diligence to cure such default. The Electric System believes it is taking such steps currently to ensure future compliance with the ratio, including filing of a request for increased rates. The Electric System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the Electric System was damaged, destroyed, taken, or condemned, or (ii) any for-profit nongovernmental investor shall acquire an ownership interest in some or all of the assets of the Electric System.

Virgin Islands Water and Power Authority – Water System Revenue Bonds of 1998

In December 1998, the Water System of WAPA issued the 1998 Water System Revenue and Refunding Bonds amounting to $44.2 million. The proceeds from the bonds were used to repay the 1990 Series A Water System Revenue Bonds at a redemption price of 100% and to refund the 1992 Series B Water System Revenue Bonds, repay outstanding lines of credit balances, pay underwriters' costs, provide funding for a Renewal and Replacement Reserve Fund, and to purchase obligations of the United States Government, which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining principal amount of the 1992 Series B Bonds.

Payment of principal and interest of the 1998 Series Bonds is secured by an irrevocable lien on the Water System's net revenues (exclusive of any funds that may be established pursuant to the Bond Resolution for certain other specified purposes) and funds established under the Bond Resolution, including investment securities. To provide additional security, the Water System has conveyed to the bond trustee, a subordinate lien and security interest in the Water System's General Fund. The Water System is also required to make deposits in a debt service reserve fund in accordance with the Bond Resolution.

The Water System's Bond Resolution requires the Water System under Section 606(1), for as long as the bonds are outstanding, to establish rates "so that in each fiscal year the net water revenues shall at all times be at least 1.25 the aggregate debt service requirement for such fiscal year." For the year ended June 30, 2017, the Water System's Debt Service Coverage ratio was 2.00. Section 606(2) of the Resolution provides that if the Water System fails to achieve such 1.25 coverage in a particular year, the Water System must "take whatever steps it can to produce the amount of net water revenues required in the following fiscal year." Section 701(3) of the Resolution relates to covenant defaults and makes them an event of default if such covenant default continues for 60 days after notice unless the Water System is proceeding with diligence to cure such default. The management of the Water System advises it is taking necessary steps to ensure future compliance with debt coverage ratios.

The 1998 Series Bonds maturing on or after July 1, 2010 are subject to redemption prior to their stated maturity date, at the option of the Water System, as a whole or in part at any time, at a redemption price of 101% through June 30, 2010 and 100% thereafter. The Water System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the Water System shall be damaged, destroyed, taken, or condemned or (ii) any for-profit non-governmental investor shall acquire an ownership interest in some or all assets of the Water System.

Virgin Islands Port Authority – Series A, B, and C Revenue Bonds of 2014

In October 2014, VIPA issued the 2014 Series Revenue Bonds A, B & C amounting to $48.6 million, with an average interest rate of 4.70%. A portion of the proceeds was used to refund the outstanding bond series 2003 A and C amounting to $24.5 million, which included accrued interest as of the redemption date for October 27, 2014. The proceeds from the issuance of the 2014 Series used in the refunding were deposited in an escrow account, held by the Trustee on behalf of the holders of the refunded bonds, and applied to such redemption contemporaneously with the issuance of the Series 2014 Bonds.

As a result, the 2003 A & C Bonds were paid off. The 2003 Series B Marine Revenue Bonds were also paid off. The Authority reduced its total debt service requirement by $1.7 million, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $2.4 million. In addition, the Authority recognized a deferred charge on debt refunding amounting to $0.4 million. The proceeds of the 2014 Bonds, together with certain other available funds of the Authority, will be used for: (i) refunding $24.5 million in 2003 Series A Marine Revenue bonds and pay off the 2003 Series bonds; (ii) for the financing of various capital projects; (iii) to fund a deposit to the debt service fund; (iv) to fund a deposit to the operation, maintenance, renewal and replacement reserve account; and (v) to pay the cost of issuance of the 2014 Bonds.

The 2014 bonds issued by VIPA contain certain bond indentures. The bonds' indentures contain certain account restrictions and funding covenants to cover interest, debt service, maintenance and other costs specified in the corresponding indentures. The bonds' indentures also specify certain debt service coverage requirements determined from Net Available Revenues (as defined) of the Marine Division. The provisions of each of the bonds' indentures require that rates and fees charged for the use of each facility generate enough revenues to pay all operation and maintenance expenses, exclusive of depreciation and certain non-cash charges, of the respective facilities plus (i) at least 125% of the principal and interest, and redemption account sinking fund deposit requirements of each of the bonds becoming due during such year; (ii) the amount of the debt service reserve fund deposit requirement for such period; (iii) the deposit required to the Renewal and Replacement Fund; and (iv) the amount of the capital improvements appropriation for such period.

Future debt service requirements for discretely presented component units' bonds payable are as follows (expressed in thousands):

Maturity Year	Principal	Interest
2018	$ 18,518	$ 15,653
2019	50,009	14,542
2020	16,401	12,181
2021	16,989	11,386
2022	17,760	10,620
2023-2027	87,194	39,585
2028-2032	73,433	19,400
2033-2037	24,181	4,716
2038-2042	3,500	588
2043-2047	500	38
Total	308,485	$ 128,709
Plus unamortized premium	5,701	
Bonds payable, net	$ 314,186	

(b) Notes Payable

Virgin Islands Housing Authority

In July 2012, VIHA signed an interest free non-recourse repayment agreement with the PG for the mis-use of disaster related expenditures related to Hurricane Marilyn which occurred in 1995. The balance of the outstanding note was $0.4 million as of September 30, 2017.

Virgin Islands Port Authority

In April 2017, VIPA obtained a short-term note for $1.8 million with interest at a 3.18% annual rate. This note has a 9-month maturity and is due in January 2018. This note was used to finance VIPA's insurance premiums. The outstanding balance of $0.9 million as of September 30, 2017, was fully paid in December 2017.

Virgin Islands Water and Power Authority – Electric System

In November 2008, the Electric System of WAPA obtained general obligation notes from First Bank in the amount of $40.0 million at an interest rate of 5.50%, the proceeds of which were used to finance outstanding invoices from HOVENSA. The Notes were issued based on a five-year amortization, but with a balloon payment in three years.

In October 2008, pursuant to Amended Order No. 05/2009 in Docket No. 289, the Public Service Commission (PSC) ordered (i) the principal and interest payments on the Notes to be recognized for recovery through the Levelized Energy Adjustment Clause (LEAC) billing factor for the Electric System and the Water System commencing in November 2008, of which 82.5%, or $7.6 million annually, has been allocated to the Electric System and 17.5%, or $1.6 million annually to the Water System; and (ii) the collection of the fuel costs recoverable balance to be reduced by the principal amount of the Notes.

Pursuant to the Guaranty of the Government for the benefit of First Bank, dated November 13, 2008 (the General Obligation Guaranty), which was authorized by the Legislature in Act 7028, the Government agreed to guarantee the payment of the principal and interest on the Notes.

In October 2010, the Electric System of WAPA petitioned the commission for approval of a refinancing of the $40.0 million term loan. Through Order #16/2011 issued by the PSC in December 2010, the loan was approved. On December 22, 2010, the term-loan was refinanced at an interest rate of 5.25%. The term loan was refinanced based on a new five-year amortization but with a balloon payment in three years.

In June 2012, the Electric System of WAPA petitioned the Commission for the approval of a refinancing of the remaining balance of the term loan following the Series 2012 Bond issue. Through Order #27/2012 issued by the PSC in July 2012, the loan was approved. The term loan was refinanced at an interest rate of 5.50% and final maturity on April 2016. The new allocation of the principal and interest payments of the Notes to be recognized for recovery through the LEAC billing factor for the Electric System is 30% and 70% for the Water System. As of June 30, 2017, the notes were fully repaid.

University of the Virgin Islands

In June 2011, UVI entered into two capital project loan agreements (loan agreements) in the amounts of $44.0 million and $16.0 million, with Rice Capital Access Program, LLC. The purpose of the capital project loans was to: (i) advance refund the University's 1999 Series A Bonds and 2004 Series A Bonds; and (ii) to pay for construction costs of a 100-bed student residence facility and other construction improvement costs of facilities on the St. Thomas and St. Croix campuses. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old outstanding bonds of approximately $4.5 million and an economic gain of $6.8 million.

During fiscal year 2015, UVI entered into two capital project loan agreements for the medical school under Series 2015 3-1 and Series 2015 3-2. UVI received advances amounting to $5.4 million related to Series 2015 3-1. UVI also entered into a loan agreement with First Bank of Puerto Rico for a Medical School Loan. A variable rate was assigned to all the loans.

UVI Research and Technology Park Corporation (unaudited)

In February 2013, RTPark obtained a $3.0 million loan from a member. A portion of the loan proceeds were used to repay a previous loan from UVI to complete construction on 64 West Center. This loan has a 6.75% interest rate and is payable over 15 years. At September 30, 2017, the note payable amount was $1.9 million. The loan is secured by RTPark's tangible and intangible property.

(c) Line of Credit Payable

The Electric System of WAPA has available bank lines of credit for $13.0 million for capital projects and $20.0 million for working capital purposes. Interest on amounts borrowed is payable quarterly at a variable interest rate of prime plus 1%, London Interbank Offered Rate (LIBOR) plus 1.5% or 1.5% above the interest rate on three-year United States Government treasury notes.

The Electric System has the option to select the variable interest rate to utilize for any borrowings on these notes and during 2017, made a $2.0 million draw on the Working Capital Line of Credit. At June 30, 2017, there was $27.1 million outstanding under the lines of credit for the Electric System. The lines were extended to have a maturity through October 31, 2019.

The Water System of WAPA has available bank lines of credit of $2.5 million for the Water System. Interest on amounts borrowed is payable quarterly at a variable interest rate of prime plus 1.0%, London Inter-Bank Offer Rate (LIBOR) plus 1.75%, or 175 basis points above the interest rate on three-year United States Government treasury notes. The Water System has the option to select the variable interest rate to utilize for any borrowings on these notes. At June 30, 2017, there was $2.5 million outstanding under the lines of credit for the Water System. The lines were extended to have a maturity through October 31, 2019.

12. General Tax Revenue

For the year ended September 30, 2017, general tax revenue of the PG consisted of the following (expressed in thousands):

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total
Income taxes	$ 318,415	$ -	$ -	$ -	$ 318,415
Real property taxes	46,242	-	-	6,269	52,511
Gross receipts taxes	2,635	160,340	1,421	250	164,646
Excise taxes	129,153	108,886	-	4,912	242,951
Other taxes	66,157	-	-	5,643	71,800
	$ 562,602	$ 269,226	$ 1,421	$ 17,074	850,323
Tax revenue not recognized on the full accrual basis					(5,081)
Total tax revenue – government-wide					$ 845,242

13. Governmental Fund Balances

Following is a detail of the aggregated fund balances presented in the Balance Sheet – Governmental Funds as of September 30, 2017, (expressed in thousands):

	General	PFA Debt Service	PFA Capital Projects	Federal Funds	Other Governmental	Total
Restricted for:						
Debt service	$ –	$ 260,064	$ –	$ –	$ –	$ 260,064
Capital projects	–	–	163,080	-	–	163,080
General government	–	–	–	34,384	-	34,384
Health	-	-	-	-	-	-
Public safety	-	-	-	560	-	560
Education	-	-	-	37	-	37
Transportation and communication	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Total	–	260,064	163,080	34,981	-	458,125
Committed to:						
General government	16,667	–	–	–	8,179	24,846
Public safety	–	–	–	–	4	4
Public housing and welfare	–	–	–	–	337	337
Transportation and communication	–	–	–	–	13,297	13,297
Culture and recreation	-	–	–	–	327	327
Total	16,667	–	–	–	22,144	38,811
Assigned to:						
General government	552	–	–	–	98,292	98,844
Public safety	–	–	–	–	1,669	1,669
Health	–	–	–	–	3,926	3,926
Public housing and welfare	–	–	–	–	5,774	5,774
Education	–	–	–	–	-	-
Transportation and communication	–	–	–	–	8,253	8,253
Culture and recreation	–	–	–	–	1,049	1,049
Total	552	–	–	–	118,963	119,515
Unassigned	(225,060)	–	–	(72,251)	(56,321)	(353,632)
Total fund (deficit) balances	$ (207,841)	$ 260,064	$ 163,080	$ (37,270)	$ 84,786	$ 262,819

The assigned fund balance includes approximately $71.6 million in unexpended encumbrances. Encumbrances are utilized to determine commitments related to unperformed (executor) contracts for goods and services and to prevent the over-spending of an appropriation.

14. Commitments and Contingencies

Primary Government

(a) Collective Bargaining Agreements

Currently, the Government has entered into union contracts with thirteen (13) distinct labor organizations representing government employees in various bargaining units. Collectively, these bargaining units have approximately thirty-nine (39) collective bargaining agreements in existence. Nine (9) bargaining units have not negotiated a collective bargaining agreement with the Government.

Employees in the various bargaining units are not under a single pay plan. Consequently, it is common to have employees performing the same classification of work in different departments and agencies. Of the approximately nine thousand (9,000) government workers, approximately seven thousand (7,000) are union members. Virgin Islands statutes governing bargaining with unions requires arbitration in the event an impasse is reached in negotiations. Under this process, each side chooses an arbitrator and a third impartial arbitrator is selected by the chosen arbitrators. The arbitration panel investigates and reviews the issues in dispute and renders a final and binding decision.

As of September 30, 2017, the Government has contractual liabilities for retroactive union arbitration salary payments estimated at $195.3 million accruing from fiscal years 1993 through 2010, as established by the Virgin Islands Retroactive Wage Commission. Under Title 24, Section 374(h) of the V.I. Code, the PG may not make any payments of retroactive salaries until there is an appropriation of funds by the Legislature.

(b) Federal Assistance Programs

The Government receives financial assistance from the federal government in the form of loans, grants, and entitlements. Monetary and nonmonetary federal financial assistance to governmental funds amounted to approximately $220.0 million and $56.5 million, respectively, for the year ended September 30, 2017.

Receipt of grants and loss reimbursements is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to audit under U.S. Office of Management and Budget's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Disallowances as a result of these audits may become liabilities of the Government.

As discussed in Note 18, the Government is a recipient of disaster recovery funds due to the September 2017 hurricanes. Audits of disaster recovery funds may continue for decades, and federal reimbursements may be required to be repaid as a result of federal audits.

Management of the Government believes that the future outcome of any changes in federal financial assistance programs will not have a material adverse effect on the basic financial statements.

(c) U.S. Department of Education Special Conditions

Since 2006, in accordance with special conditions imposed by the U.S. Department of Education (USED), the Government has contracted with a third-party fiduciary agent to ensure that the Government manages and administers USED grants in accordance with applicable federal and financial management requirements.

The special conditions also require the Government to submit quarterly reports on progress in improving all aspects of the fiscal management of federal education grants. The Virgin Islands has implemented a Self-Contained Model known as the Federal Grants Specialized Processing Unit to address the special conditions and as the approach for reassuming management of the grant funds.

(d) U.S. Department of Labor Designation

On February 3, 2017, the Virgin Islands Department of Labor was placed on high-risk grantee status by the U.S. Department of Labor. High-risk grantee status is an administrative designation used by federal agencies to indicate unsatisfactory performance in the management of federal grants. Management is currently working with the U.S. Department of Labor to implement corrective action.

(e) Legal Proceedings and Litigation Claims

The Government is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Title 33, Section 3411(c) of the V.I. Code, no judgment shall be awarded against the Government that exceeds $25,000 for tort claims filed under Government statutes. In cases involving several survivors, each award must be construed separately for purposes of applying the limitation upon recovery imposed by the Tort Claims Act. Under Title 27, Section 166(e) of the V.I. Code, the Government's waiver of immunity is expanded to $250,000 for medical malpractice actions, including actions for wrongful death based on malpractice. Under certain circumstances, as provided in Title 33, Section 3414 of the V.I. Code, the Government may assume the payment of a judgment entered against an officer or employee who acted reasonably and within the scope of his employment. The Government may pay up to a maximum amount of $100,000 of the settlement. With respect to pending and threatened litigation, the Government has accrued a provision for legal claims and judgments of approximately $16.1 million for awarded and anticipated unfavorable judgments as of September 30, 2017.

Changes in the reported provision for legal claims during September 30, 2017, resulted from the following activity (expressed in thousands):

	Beginning Balance at October 1, 2016	New Claims	Claims Payments and Changes in Estimates	Ending Balance at September 30, 2017
Provision for legal claims	$ 13,783	$ 3,027	$ (665)	$ 16,145

The breakdown of the provision for legal claims at September 30, 2017, as reflected in governmental activities, is as follows (expressed in thousands):

Current portion	$ 331
Long-term portion	15,814
	$ 16,145

(f) Landfill Closure and Post-Closure Costs

Federal laws and regulations, including the Clean Air Act, 42 U.S.C. § 7401 et seq. (CAA), and regulations promulgated thereunder, including the federal standards set forth in 40 C.F.R. Part 62, Subpart GGG (Federal Plan), and the National Emission Standards for Hazardous Air Pollutants for Municipal Landfill Maximum Achievable Control Technology, set forth in 40 C.F.R. Part 63, Subpart AAAA (Landfill MACT), and the Solid Waste Disposal Act, 42 U.S.C. § 6901 et seq. (RCRA), and regulations promulgated thereunder, including federal municipal solid waste landfill operating, closure, and post-closure criteria set forth in 40 C.F.R. Part 258, and three EPA administrative orders issued pursuant to RCRA § 7003(a), 42 U.S.C. § 6973(a), and Territorial laws and regulations, including V.I. Code Title 19, Chapter 56 (Solid and Hazardous Waste Management), Title 12, Chapter 9 (Air Pollution Control), and Title 12, Chapter 21 (Virgin Islands Coastal Zone Management), and regulations promulgated thereunder, require the Government to construct and operate certain environmental control systems and otherwise comply with certain requirements during operation of each of its landfill sites, properly close the site (including placement of a final landfill cover) when the landfill (or portion thereof) stops accepting waste, and perform certain post-closure maintenance and monitoring functions at the site for 30 years following closure. Compliance costs during the operational phase will be paid prior to closure.

Although closure and post-closure costs will be paid only near or after the date that the landfill stops accepting waste, the Government reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each statement of net position date. The $97.9 million reported as landfill compliance, closure, and post-closure care liability at September 30, 2017, represents the cumulative amount reported to date based on the use of the estimated capacity of each landfill. The Government will recognize the remaining estimated cost of closure and post-closure care as the remaining estimated capacities are filled. These amounts are based on what it would cost to perform all closure and post-closure care as of September 30, 2017.

The estimated used capacity and expected closure of each of the Government landfills is as follows:

Landfill	Estimated Used capacity	Estimated Closure date
Bovoni	98%	2022
Anguilla	97%	2021
Susannaberg	100%	Closed

The actual cost to perform closure and post-closure may be higher due to inflation, changes in technology, or changes in regulations. The Government is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and post-closure care. The Government began making annual contributions to a trust in fiscal year 2007 to finance closure and post-closure costs. The Government expects that future inflation costs will be paid from interest earnings on these annual contributions and other financing measures.

However, if interest earnings and financing measures should prove to be inadequate, or additional post-closure care requirements are determined due to changes in technology or applicable laws or regulations, these costs may need to be recovered through charges to future landfill users.

(g) Wastewater Treatment Plant Consent Decree

Since 1985, the Government has been subject to a consent decree issued by the Virgin Islands District Court, governing the operation of its wastewater treatment plants. The consent decree was amended in 1996 and further modified with the 2002 Stipulation to the Amended Consent Decree (the Stipulation) to establish deadlines for the construction of new secondary treatment facilities, including the replacement of the existing St. Croix and Airport Lagoon (Charlotte Amalie) wastewater treatment plants. The Stipulation required that the new St. Croix wastewater treatment plants be completed by the end of 2006 and the new Charlotte Amalie wastewater treatment plants be completed by the end of 2007. The cost of both facilities was estimated at approximately $50.0 million. In January 2004, the Government's Legislature authorized the creation of the VIWMA for the purpose of meeting environmental requirements of wastewater treatment in the U.S. Virgin Islands. On December 2004, the PFA issued revenue bonds amounting to $94.0 million for the purpose of constructing and rehabilitating wastewater treatment plants. The treatment facilities were completed in July 2007 and January 2008 at a cost of approximately $27.0 million and $29.0 million for the St. Croix and the St. Thomas treatment facilities, respectfully.

The Stipulation also establishes certain interim deadlines and performance standards that must be met by the Government pending completion of the new facilities. In addition, the Stipulation establishes specified penalties for violation of any of the deadlines or performance standards set forth therein. As of the date of the basic financial statements, the Government is current on all of its outstanding obligations pursuant to the stipulation.

(h) Memorandum of Understanding – EPA

On August 21, 2002, the Government and the United States Environmental Protection Agency (EPA) entered into a memorandum of understanding documenting the EPA's agreement to support the renewal of the Territorial Pollutant Discharge Elimination System (TPDES) permit for its St. Croix distillery operations provided that the Government make certain funding available to (i) conduct treatability studies regarding the Virgin Islands Rum Industries, Ltd. (Cruzan Rum) effluent and the means to mitigate its potential environmental effects in the vicinity of the discharge; (ii) identify practicable, available, reliable, and cost-effective potential mitigation measures; and (iii) implement (or assist in the implementation of) such mitigation measures in the event such measures are determined by the Virgin Islands Department of Planning and Natural Resources after consultation with EPA to be necessary and appropriate.

Pursuant to the memorandum of understanding, the Government's obligation to fund such activities is limited to $6.0 million in the aggregate, commencing on October 13, 2003. Subsequently, the Government entered into a three-year contract with a locally licensed environmental consulting firm to facilitate the Government's commitments with the memorandum of understanding with the EPA. At the conclusion of the MOU treatability study period, the PG agreed to reissue the TPDES permit to Cruzan Rum in 2008 with the requirement that the rum distillery design and construct a treatment facility for the rum distillery effluent within three years. PFA issued the Series 2009 Cruzan Bonds to fund the treatment facility which is currently operating under a 2013 TPDES permit.

(i) Workers' Compensation Liability

The Government is exposed to risk of loss related to workers' compensation claims. The Government is self-insured for this risk. Self-insured risk liabilities are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the worker's compensation liability amount in fiscal year 2017 and 2016, as recorded in the Government Insurance Fund, are as follows (expressed in thousands):

September 30,	**2017**	2016
Claims payable, beginning of year	**$ 38,459**	$ 32,053
Incurred claims and changes in estimates	**5,760**	10,921
Payments for claims and adjustments expenses	**(3,757)**	(4,515)
Claims payable, end of year	**$ 40,462**	$ 38,459

(j) Bond Credit Ratings

On December 2, 2016, Fitch Ratings downgraded the Territory's gross receipts tax bonds to BB from BBB. The rating agency pointed to the Government's use of bond issuances to fund operating needs as the reason for the downgrade. On January 20, 2017, Fitch further downgraded the gross receipts bonds to BB- from BB.

On December 9, 2016, Standard & Poor's Global Ratings (S&P) downgraded the Territory's gross receipts tax bonds to BBB- from B. S&P cited the weak economic conditions in the Territory, declining debt coverage, and the potential that additional debt will further dilute the coverage.

In August 2017, Fitch Ratings downgraded the Government's Matching Fund Revenue and Gross Receipts Tax debt to B from BB-. The Government ceased providing information to S&P in August 2017, to evaluate the Government's liquidity, and in October 2017, S&P withdrew its credit ratings.

In January 2018, Moody's Investor Services downgraded the Government's Matching Fund Revenue Bonds as follows: Senior Lien Bonds to Caa2 from Caa1; Subordinate Lien Bonds to Caa3 from Caa2; Subordinated Indenture (Diageo) Bonds to Caa3 from Caa2; and Subordinated Indenture (Cruzan) Bonds to Caa3 from Caa2.

(k) Operating Agreement – Limetree Bay Terminals, LLC

In January 2012, Hess Oil Virgin Islands Corporation (Hess Oil) announced that it would close its oil refinery on the island of St. Croix and the facility would serve as a storage terminal. The company amended tax returns for the three years before the closing, and a legal dispute arose with the Government over amounts due to, or from, the company in connection with the amended returns and other requirements of Hess Oil's agreement with the Government.

On December 1, 2015, the Government settled its dispute with Hess Oil. The company agreed to transfer to the Government 330 acres of land near the oil terminal (estimated value $21.0 million), 130 housing units at the oil terminal (estimated value $27.0 million), and a vocational school and a community center (both estimated at a value of $1.0 million) for a payment in lieu of taxes (PILOT) valued at $50.0 million.

On December 1, 2015, the Government entered into an operating agreement with the new operator of the oil terminal, Limetree Bay Terminals, LLC (Limetree). Limetree agreed to investigate refurbishing and reopening the terminal, with an investment of $125.0 million. In December 2015, Limetree paid $220.0 million as a payment in lieu of taxes, $9.0 million as a reimbursement for contingent claims, and agreed to invest $6.0 million in the construction of a bitumen tank at the facility. As part of the operating agreement Limetree receives exemption from property taxes, income taxes, and local taxes. Limetree will be subject to a concession payment of 10% of terminal revenues.

Should the oil refinery reopen, Limetree will be required to pay concession fees of 17.5% of refinery income to the Government on a quarterly basis. If there is a change in the control of Limetree, the Government is to receive 10% of the transaction value of the exchange, not to be less than $25.5 million.

In December 2018, Limetree obtained $1.3 billion in financing to reopen the oil refinery operation. Upon closing, the Government received $40.0 million in short-term financing and $30.0 million in payment for the 130 housing units, vocational school and community center at the oil refinery.

Pension Trust Fund

(a) Pension Reform

In response to a recommendation in a September 27, 2011, audit report from the Office of the Inspector General and U.S. Department of Interior, the PG formed a Pension Reform Joint Task Force (the Task Force) to address the declining fiscal condition of the GERS. The Office of the Inspector General's audit report had concluded that, due to insufficient contribution levels and an unbalanced ratio of active to retired members, the retirement system of the U.S. Virgin Islands may default as soon as the year 2025.

The Task Force has submitted recommendations to the Legislature to: (i) increase government and employee contributions towards pension benefits; (ii) raise contribution rates for senators and judges; (iii) reduce retiree current benefits by 10 percent; (iv) increase the early retirement age from fifty (50) to fifty-five (55) and the regular retirement age from sixty (60) to sixty-five (65); (v) limit the cost of living increase; and (vi) change the formula used to calculate benefits.

On February 5, 2015, GERS increased employee contribution rates by 1% to be implemented over a three-year period and to be effective for three years. The Government's contributions to the system increased by 3% from 17.5% to 20.5%.

In March 2016, the Office of the Virgin Islands Inspector General issued a report on the alternative investment program administered by GERS. The report concluded that the non-traditional investments of the retirement system were subject to higher risks than other GERS assets.

In September 2016, GERS sponsored a public summit to present projections of investment returns and future benefit payments for the system. Actuarial reports indicate that the assets of the system may be fully depleted by the year 2023.

Component Units

(a) Virgin Islands Water and Power Authority – Electric System

In September 1989, WAPA Electric facilities were damaged by Hurricane Hugo. WAPA reconstructed the facilities with proceeds from insurance and the Federal Emergency Management Agency (FEMA). At June 30, 2017, the Electric System has recorded a liability of $4.1 million respectively for amounts owed to the Federal Emergency Management Agency (FEMA) for overpayments related to certain questioned costs. Currently, FEMA and its sub-recipient, the Government of the Virgin Islands, do not have a mechanism in place for recovering the overpayment of disaster-related funds. In addition, FEMA has not made a formal request for repayment of these funds. In management's opinion, the resolution of this matter will not have a material adverse effect on the WAPA's changes in financial position or cash flows.

In October 2008, WAPA Electric facilities on the island of St. Croix were damaged by Hurricane Omar. WAPA expended $2.7 million for storm cleanup and system restoration through June 2010. The Territory was declared a federal disaster after the hurricane and was eligible for reimbursement of 75% of what was expended according to the category of the damage. WAPA Electric has recorded a receivable from FEMA through the Office of Management and Budget – Public Assistance (OMB-PA) amounting to approximately $1.0 million.

In August 2010, WAPA Electric facilities were damaged by Hurricane Earl. WAPA expended over $2.0 million for storm clean-up and restoration, which was completed in October 2010. The Territory was declared a Federal disaster area after the Hurricane and was eligible for reimbursement of 75% - 80% of what was expended according to the category damage. WAPA recorded a receivable of $1.3 million from FEMA through the Virgin Islands Territorial Emergency Management Agency (VITEMA) Public Assistance Program.

In April 2012, WAPA leased a temporary 22-megawatt mobile power plant for $14.6 million for eighteen (18) months through October 2013. In November 2013, management and the vendor extended the original lease agreement for an additional twelve (12) months through November 2014 for $7.8 million. The lease term was then amended for an additional twenty-four (24) months through November 2016, for $13.2 million.

Total lease payments for fiscal year 2017 were $6.1 million. Additionally, during the normal course of business, WAPA leases additional and various property and equipment to support Electric System operations. The leases are generally short-term in nature and lease payments are not significant to the overall operations of the Electric System.

WAPA has signed purchase power agreements with several companies to integrate a combined 18MW of solar electricity into the WAPA's electrical grid system. The agreements are for between twenty (20) and twenty-five (25) years, expiring between 2022 and 2027. WAPA will not own the solar assets but will be able to purchase solar generated electricity at contracted rates.

On September 30, 2011, WAPA Electric entered into a Memorandum of Agreement (MOA) with viNGN, Inc., a Virgin Islands corporation and wholly owned subsidiary of the PFA. The MOA terms call for WAPA Electric to provide in-kind contributions in connection with a federal grant received by viNGN, Inc. The in-kind contributions consist of the use of certain facilities, equipment, and communications infrastructure. The total in-kind match value budgeted by WAPA was $15.2 million. The term of the MOA is twenty-five (25) years upon execution, with two additional twenty-five (25) year terms unless either party provides a written notice of non-renewal not less than twelve (12) months, but no sooner than twenty-four (24) months prior to the expiration of the original term or any additional term.

(b) Virgin Islands Water and Power Authority – Water System

In 2011, the Water System of WAPA entered into two agreements with Seven Seas Corporation to build, operate and maintain two reverse osmosis facilities, one on St. Croix and one on St. Thomas, and sell the water from the facilities to WAPA. The agreements both have twenty (20) year terms expiring through 2032.

(c) Virgin Islands Port Authority

In accordance with the approved Compliance Plan between the Virgin Islands Waste Management Authority, VIPA, and the FAA, the Government has addressed the previous issues related to the potential flight hazards created by birds attracted to the Anguilla Landfill near the Henry E. Rohlsen Airport. With the landfill now only accepting baled debris, the FAA was satisfied with the progress made towards closing the facility.

(d) Governor Juan F. Luis Hospital & Medical Center

The Governor Juan F. Luis Hospital and Medical Center previously held an equity ownership with a radiology practice within the hospital. The radiology practice paid rent to the hospital and the hospital paid for service to hospital patients. As of September 30, 2017, the hospital owed the radiology practice $8.6 million in unpaid invoices for hospital patients.

(e) Other

Various discretely presented component units are presently defendants or codefendants in various lawsuits. The financial managers of the component units have advised the PG that any adverse outcome involving a material claim is expected to be substantially covered by insurance. Government property is exempt from lien, levy, or sale due to court judgments under the V.I. Code.

15. Retirement Systems

Primary Government

As required, the Government follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* and GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. Following is a description of the pension plan and accounting for pension expense, liabilities, and deferred outflows/inflows of resources.

(a) Plan Description and Benefits

Full time employees of the Government are members of GERS, a cost sharing, multiple-employer, defined benefit pension plan (the plan) established as of October 1, 1959 Title 3, Chapter 27 of the V.I. Code to provide retirement, death, and disability benefits. Benefits may be extended to beneficiaries of plan members. The plan covers all employees of the Government except employees compensated on a contract fee basis, casual, per diem or provisional and part time employees who work less than twenty (20) hours per week. Persons over the age of fifty-five (55) may opt out of the plan by providing formal notification to the plan. Vesting of benefits occurs after ten (10) years of service. Benefits may be extended to beneficiaries of plan members.

There are two tiers within the plan:

Tier I: Employees hired prior to September 30, 2005
Tier II: Employees hired on or after October 1, 2005

Regular employees who have completed thirty (30) years of credited service or have attained age sixty (60) with at least ten (10) years of credited service are eligible for a full-service retirement annuity. Members who are considered "safety employees" as defined in the Code are eligible for full retirement benefits when they have earned at least twenty (20) years of service or have reached the age of fifty-five (55) with at least ten (10) years of credited service. Regular and safety employees who have attained age fifty (50) with at least ten (10) years of credited service may elect to retire early with a reduced benefit.

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation for Tier I members is determined by averaging the five highest years of credited service within the last ten years of service, subject to the maximum salary limitations in effect during such service. Average compensation for Tier II members is determined by averaging the most recent five years of credited service within the last ten years of service, subject to the maximum salary limitations in effect during the service. The maximum annual salary that can be used in this computation is $65,000, except for senators and judges, whose annual salary is used.

GERS is a separate and independent agency that is included for financial reporting purposes as a blended pension trust fund of the PG. GERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Employees' Retirement System of the Government of the Virgin Islands, 3438 Kronprindsens Gade, St. Thomas, Virgin Islands 00802.

(b) Funding and Contribution Policy

Contributions to GERS are established by the Board of Trustees of GERS. The Government's required contribution for Tier I and Tier II members through December 31, 2014 was 17.5% of the member's annual salary. Effective January 1, 2015, the Government's required contribution was increased to 20.5% of the Tier I and Tier II member's annual salary.

Effective January 1, 2017, the required employee contributions are 11% and 11.5% of annual salary for Tier I and Tier II regular employees, respectively; 12% and 14% for Tier I and Tier II senators, respectively; 14% and 15% for Tier I and Tier II judges, respectively; and 13% and 13.625% for Tier I and Tier II safety (hazardous employees and eligible employees under Act 5226), respectively. Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective July 1, 2009, the GERS Board of Trustees approved an effective annual interest rate on refunded contributions of 2.0% per annum.

Both the defined benefit pension plan administered by GERS, and the PG have a fiscal year that ends on September 30th. The following time frames are used to measure and report the PG's pension liability:

Valuation Date:	October 1, 2016
Measurement Date:	September 30, 2016
Measurement Period:	October 1, 2015 – September 30, 2016

The PG is considered an employer of the plan with a proportionate share of 76.4171% as of September 30, 2016, which was an increase of 1.1255% from its proportionate share measured as of September 30, 2015. The PG's percentage was determined based on its respective contributions as a percentage of the total contributions to the plan. The PG's proportionate share of employer contributions recognized by GERS was $61.8 million for the plan's fiscal year ended September 30, 2016.

(c) Pension Liabilities, Expense, and Deferred Outflows/Inflows of Resources

As of September 30, 2017, the actuarially calculated net pension liability of the PG was $3.5 billion. The net pension liability is measured as of September 30, 2016, and the total pension liability is actuarially computed as of October 1, 2016. For the measurement date September 30, 2015, there was a change in assumptions for calculating the proportionate share.

Actuarially determined proportionate share information was estimated by management of GERS based on an average four-year respective share of the PG's relative contributions. Previously, the proportionate share information was estimated by management of GERS based on the respective share of single year contributions at the measurement date.

For the year ended September 30, 2017, the Government recognized $268.0 million of pension expense, inclusive of amortization of deferred outflows of pension related items.

Following is a schedule of deferred outflows and deferred inflows allocated to the Government in the computation of the net pension liability for the year ended September 30, 2017, (expressed in thousands):

Governmental Activities	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	$ 111,235	$ -
Net difference between projected and actual investment earnings on pension plan investments	42,540	4,091
Changes in assumptions	729,331	-
Changes in proportion and differences between contributions and proportional share of contributions	33,499	1,936
Contributions made subsequent to measurement date	61,759	-
Total	$ 978,364	$ 6,027

Amounts reported as deferred outflows and inflows, exclusive of contributions made after the measurement date, will be recognized in pension expense as follows (expressed in thousands):

Year Ending September 30,	
2018	$ 179,533
2019	241,292
2020	189,845
2021	177,188
2022	61,360
Thereafter	61,360
Total	$ 910,578

(d) Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of the measurement date at September 30, 2016, is provided below. Refer to the October 1, 2016, actuarial valuation report for a complete description of all other assumptions, which can be found on GERS' website.

September 30,	2016
Inflation Rate	2.50%
Salary Increases	3.25% including inflation
Actuarial Cost Method	Entry age normal
Expected Rate of Return	7.00%
Municipal Bond Yield	3.06%
Discount Rate	3.20%
Mortality Table	RP-2014 Blue Collar

The demographic assumptions for the 2016 actuarial valuation are based on the results of an actuarial experience study for the period October 1, 2011 through September 30, 2015.

(e) Investment Rate of Return

The long-term expected rate of return of 7.00% on pension plan investments was determined using the building-block method in which best-estimate ranges of expected future real rates of returns (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the measurement date of September 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	29%	6.59%
International equity	12%	8.29%
Fixed income	27%	1.59%
Cash	2%	0.99%
Alternatives	30%	5.50%
Total	100%	

(f) Discount Rate

The discount rate used to measure total pension liability was 3.20% as of September 30, 2016, which was a decrease of 0.64% from the discount rate as of September 30, 2015. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate, including the future increases in the employee contribution rates legislated. Using the above assumptions, GERS fiduciary net position is not projected to be available to make all projected future benefit payments to current plan members.

The plan's long-term expected rate of return on pension plan investments of 7.00% was applied to all periods of projected benefit payments that are covered by projected assets. For periods where projected future benefit payments are not covered by projected assets, the yield on a twenty (20) year AA Municipal Bond Index was applied. As of September 30, 2016, that rate was 3.06%.

(g) Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

Following is a schedule of net pension liability for the Government calculated using the discount rate of 3.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate for the year ended September 30, 2017, (expressed in thousands):

	1% Decrease (2.20%)	Current Discount (3.20%)	1% Increase (4.20%)
Net pension liability	$ 4,134,460	$ 3,535,517	$ 3,044,158

Detailed information about the pension plan's fiduciary net position is available in the separately issued GERS financial report.

(h) Early Retirement Incentive Program

In August 1994, legislation providing an early retirement incentive was passed. The legislation was subsequently amended on October 13, 1994, December 30, 1994, and December 5, 1995. Among other matters, the legislation allows a member of GERS who has a combined aggregate number of years of credited service plus number of years of age, equal to at least seventy-five (75) years as of the date of the legislation, to retire without reduction of annuity. Members, who have attained the age of fifty (50) with at least ten (10) but less than thirty (30) years of credited service, may add an additional three (3) years to their age for this computation. Members with thirty (30) years of service or who can retire without penalty under the V.I. Code shall have their average compensation increased by 4 percentage points.

For each employee electing to retire pursuant to Section 8(a) of the Early Retirement Act of 1994 (the Act), the Government contributes to GERS, on a quarterly basis, an amount equal to the employer and employee contributions that would have been made until the employee reached the age of 62 had the employee not elected to retire under this provision.

For employees electing to retire under Section 8(b) of the Act, the Government contributes to GERS a sum equal to the additional contribution the employer and employee would have made had the employee received a salary 4.0% higher during the three years used to compute the employee's average compensation figure, plus a sum of $5,000.

Based on this calculation, the amount due to GERS was $26.9 million and has been remitted to GERS. The actuaries of GERS have determined that the specific funding provided under the Act is inadequate to cover the costs of the program. GERS is seeking to recover any unfunded costs of the program under a newly enacted provision of the retirement law, which provides that the Government will compensate GERS for the costs of any special early retirement program.

Postemployment Benefits

In addition to the pension benefits described above, the Government provides other postemployment benefits (OPEB) of healthcare, prescription, dental and life insurance coverage. These benefits are provided in accordance with Title 3, Chapter 25, Subchapter VIII of the V.I. Code as part of a cost-sharing, multiple employer defined benefit OPEB plan, in which most component units of the PG participate and contribute. All employees who retire from government service after attaining age fifty-five (55) with at least thirty (30) years of service, except for policemen and firemen who can retire with at least twenty (20) years of service, are eligible for these benefits.

The PG's postemployment benefit cost is calculated on the annual required contribution of the PG, an amount actuarially determined. The first actuarial valuation was prepared as of October 1, 2007, in accordance with provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and has been updated by the actuarial consultant on October 1, 2009, 2011, 2013 and 2015.

Based on census data included in the October 1, 2015 actuarial valuation of OPEB, 9,313 active employees, 7,864 service retirees, 1,982 spouses of service and disability retirees covered for medical and dental benefits, 250 disability retirees, and 219 deferred vested (i.e., non-retired employees who have already terminated employment with the PG, but who are eligible for medical and life insurance benefits when they subsequently reach the qualifying age) meet the eligibility requirements of OPEB.

Healthcare, prescription, and dental insurance is provided through negotiated contracts with private insurance companies. Participants in the plan may elect coverage for their spouses and dependent children. Participants are required to contribute 35% of medical, prescription, and dental premiums.

Effective October 1, 2013, separate medical premiums for non-Medicare retirees and Medicare retirees are being used to determine contribution requirements, instead of a premium blended with active costs. Retirees of UVI that participate in the 403(b)-retirement plan may obtain coverage on a fully contributory basis. Life insurance is offered to retirees on a fully contributory basis.

The contribution requirements of plan members and the PG are legislated within the V.I. Code, and may be amended, by the Virgin Islands Legislature. The plan is a non-funded pay-as-you-go plan, and expenditures are paid as they become due. For the year ended September 30, 2017, the Legislature budgeted, and paid $13.2 million for retiree health insurance payments.

The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year, and amortize any unfunded actuarial liabilities over a period not to exceed an open thirty (30) year period.

(a) Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the PG's annual postemployment benefits cost, percentage of OPEB costs contributed, and the net OPEB obligation (expressed in thousands):

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2015	$ 67,713	43.63%	$ 357,224
9/30/2016	90,056	34.04%	416,623
9/30/2017	93,741	35.12%	477,438

(b) Actuarial Accrued Liability and Funding Status

Actuarial Valuation Date	October 1, 2015
Actuarial Accrued Liability (AAL)	$ 1,283,144
Unfunded AAL	$ 1,283,144
Funded Ratio	0%

The PG's obligation to provide health insurance to retirees is an unfunded plan. The actuarial valuation of the amount required to fund the plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Estimated annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the PG and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the first actuarial valuation dated October 1, 2007, liabilities at October 1, 2008 were rolled back to October 1, 2007. In subsequent valuation reports, actual benefit payments were used for the fiscal years ended September 30, 2009 through 2017.

Covered health care and dental care expenses were assumed to increase in future years based on the claims experience for fiscal year 2015, and a trend assumption beginning at 8.0% for pre-Medicare retirees, 6.0% for post-Medicare retirees, 6.0% for dental benefits, and grading down to an ultimate rate of 4.5% in fiscal year 2021 and after. The entry age normal actuarial cost method with costs on a level percentage of payroll basis was used to determine the annual required cost of OPEB benefits to retirees. Amortization is over an open thirty (30) year period as a level percentage of payroll. Payroll growth is assumed to be 3.25% per year for purposes of amortization.

This method is consistent with the cost method used by GERS and typically produces the most level annual required contribution each subsequent year as a percentage of payroll. The normal cost was rolled back using the ultimate trend rate. A discount rate of 2.5% per annum was used, compounded annually.

The valuation assumed that the annual unit cost per covered individual (i.e., retiree or spouse) for medical, prescription drugs and dental care for the fiscal year ended September 30, 2015, was $8,243, $1,779, and $999 for retirees under age sixty-five (65) and $1,130, $1,786, and $243 for retirees over age sixty-five (65).

The normal cost reflects the average age of the covered population and is based on claims experience for the fiscal year ended September 30, 2015, with a two-thirds weighting applied to the more recent year.

Combined experience and a combined cost were used for the pre-65 and post-65 populations. A composite cost was developed for retirees and spouses by combining their claim experience. Dependent children claims were included in developing the composite retiree and spouse cost. Costs were adjusted to reflect the anticipated lag in claim payment. An administrative loading was added as well.

WICO Employee Retirement Plan

The WICO Employee Retirement Plan (the Plan) is a defined contribution retirement and savings plan sponsored by the Company, covering the Company's employees not governed by a collective bargaining agreement. The Plan is administered by Weber Shapiro & Co. LLP. Under the provisions of the Plan, employees must contribute at least 3.0% of their gross compensation and may contribute up to 7.0% of their compensation. The Company matches 3.0% of the employees' contribution plus a non-elective distribution at the discretion of the Company, which is divided among eligible employees, proportionate to compensation.

Required contributions to the pension and savings plan made and charged to operations were approximately $120,000 for the year ended September 30, 2017. Total contributions made to the Plan by covered employees during 2017 amounted to $127,000. The Company does not offer other post-retirement benefits to its employees.

Component Units

(a) University TIAA-CREF Defined-Contribution Plan

The University has two retirement plans in which all eligible employees are required to participate, the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and GERS. The TIAA-CREF is a defined-contribution pension plan covering participating, full-time faculty members and other exempt employees, under which the contributions, including employees' contributions, are used to purchase annuities. There are no unfunded past service costs, and vested benefits are equal to the annuities purchased under TIAA-CREF. Total contributions made by the University and plan members to TIAA-CREF and GERS amounted to $4.0 million for the fiscal year ended September 30, 2017.

16. Liquidity

Primary Government

At September 30, 2017, the Government reported a total net deficit in governmental activities amounting to $4.4 billion. The net deficit is a culmination of several factors such as: (i) the 2008 financial markets collapse and subsequent recession resulting in a reduction in income tax revenue and increase in unemployment; (ii) increases in costs of operations; (iii) the negative effect of certain IRS regulations resulting in a reduction of economic development companies operating in the Territory; (iv) the adoption of an accounting standard which required the reporting of pension liabilities and pension expense based on actuarial computations; and (v) in September 2017, the Government experienced significant infrastructure damage as a result of two Category 5 hurricanes.

Following is a summary of the Government's unrestricted net deficit for governmental activities for fiscal years 2015 through 2017:

Fiscal Year	Governmental Unrestricted Net Deficit	(Increase)/ Decrease
2015	$ (4,152,336)	$ (2,217,677)
2016	(4,247,570)	(95,234)
2017	(4,797,101)	(549,531)

Following is a summary of the general fund deficit. At September 30, 2017, the Government reported a fund deficit in the general fund of $207.8 million. This fund deficit balance represents an increase in the deficit by $134.8 million from the preceding fiscal year, mainly due to the reduction in tax collections and increase in spending.

Fiscal Year	Committed	Assigned	Unassigned	Total
2015	$ 14,687	$ 576	$ (74,073)	$ (58,810)
2016	16,513	-	(89,599)	(73,086)
2017	16,667	552	(225,060)	(207,841)

The Government has been working to stabilize and solidify its financial position through the implementation of an aggressive multi-pronged plan. In March 2017, the Legislature addressed the general fund deficits with the enactment of the Virgin Islands Revenue Enhancement and Economic Recovery Act, a five-year plan of revenue initiatives and cost-cutting measures to reduce and eliminate structural deficits. The Government has legislated increases in local taxes such as the gross receipts taxes and hotel taxes.

The Government expects structural deficits following the 2017 hurricanes to be offset by the economic activity related to construction and federal recovery assistance. The post-hurricane construction economy is strong as residents replace damaged property along with the influx of federal workers and construction firms. Airbnb properties have increased to replace hotel rooms damaged by the storms. The Government has successfully negotiated the direct withholding of hotel tax by Airbnb. Cruise ship calls have returned to near normal levels. The Government has experienced an increase in tax collections reported by the Virgin Islands Bureau of Internal Revenue.

The Government has also continued to receive its annual matching fund rum excise tax advance from the U.S. Department of Interior.

New sources of revenue streams expected in fiscal years 2019 and 2020 include the settlement with the Secretary of the Treasury on amounts related to the *Disaster Tax Relief and Airport and Airway Extension Act of 2017* and increasing revenues from the Limetree Bay Terminal concessioner. Additionally, immediately following the hurricanes of 2017, the federal government acted to provide relief to the U.S. Virgin Islands through legislation and supplemental appropriations for disaster recovery assistance. The Government expects to receive approximately $8.0 billion in federal assistance through fiscal year 2025. The Government has also participated in the Federal Emergency Management Agency's (FEMA) Community Disaster Loan (CDL) program. The CDL program provides operational funding for local governments to continue to operate after a substantial revenue loss (greater than 5%) caused by a disaster. The term of the CDL loans is five (5) years and can be extended to ten (10) years. The Government's ability to access the CDL facility has allowed it to remain current in its obligations. The Government has pledged gross receipts taxes for the timely payment of the CDLs. The Government has also been the recipient of insurance recoveries and private donations.

While the Government has certain revenues pledged for debt service on various bonds and notes, to date, revenues pledged for debt service have not been significantly impacted. The Government does not anticipate the issuance of additional bonds in the immediate future. All payments on bonds and notes obligations have been remitted as required. Other significant liabilities of the Government, mainly consisting of benefits due to the Government's workforce and landfill closure costs, represent obligations of the Government, but do not require the use of current resources.

To meet the continuing liquidity needs of the Government, various financing sources will be relied upon. Also see Note 18.

WICO

The Company is in a negative working capital position as of September 30, 2017. The Company is a component unit of PFA which experienced credit rating downgrades due to the financial and budgetary challenges experienced by the Government. In March 2017, the Legislature addressed general fund deficits with the enactment of the Virgin Islands Revenue Enhancement and Economic Recovery Act, a five-year plan of revenue initiatives and cost-cutting measures. To date, revenues pledged for debt service have not been significantly impacted by the Government's financial condition.

viNGN

viNGN is a component unit of PFA which maintains an advance payable to PFA of approximately $36.8 million as of September 30, 2017. PFA experienced credit rating downgrades due to the financial and budgetary challenges experienced by the Government. In March 2017, the Legislature addressed the general fund deficits with the enactment of the Virgin Islands Revenue Enhancement and Economic Recovery Act, a five-year plan of revenue initiatives and cost-cutting measures. To date, revenues pledged for debt service have not been significantly impacted by the Government's financial condition.

Component Units

(a) Virgin Islands Water and Power Authority – Electric System

Management of the Electric System (the System) has been attempting to stabilize and solidify its financial condition. The System has successfully petitioned the Virgin Islands Legislature to increase its debt ceiling limit and is working with an external financial team to restructure debt and gain access to additional financing to sustain operations and fund capital projects. Management of the System is also preparing a comprehensive base rate petition and semi-annual LEAC filings for submission to the Public Service Commission prior to the end of calendar year 2019, which will produce additional liquidity and allow the System to build working capital reserves. The plan also includes a strategy to right-size and streamline the System's processes. The System continues to aggressively pursue federal funding for the acquisition of new high efficiency generation and renewables which will improve reliability, resiliency, and efficiency and reduce operating costs.

(b) Virgin Islands Government Hospital and Health Facilities Corporation

During the year ended September 30, 2017, the Roy L. Schneider Hospital experienced a decrease in net position of $27.3 million. Current liabilities of the Hospital exceed current assets by $35.2 million as of September 30, 2017. The Roy L. Schneider Hospital operates the only hospital on St. Thomas and a health center on St. John, providing health care related services to approximately 50,000 residents.

During the year ended September 30, 2017, the Governor Juan F. Luis Hospital and Medical Center experienced a decrease in net position of $22.4 million. Current liabilities of the Hospital exceed current assets by $45.8 million. The Governor Juan F. Luis Hospital and Medical Center operates the only hospital on the island of St. Croix.

The Board of directors and management of the hospitals are implementing fiscal sustainability measures to improve operation efficiencies, evaluate change capture and pricing improvements, reduce accounts receivable collection time, and evaluate Medicare reimbursement options and opportunities.

Both hospitals incurred significant structural damages related to the September 2017 hurricanes and have received FEMA Community Disaster Loans. The full impact of the hurricanes continues to be evaluated as the hospitals seek grants and federal assistance to continue operations.

17. Fund Deficit

Primary Government

The following non-major funds have a net fund deficit as of September 30, 2017, (expressed in thousands):

Governmental Funds

Rural Library Extension	$ 572	Water & Electric System Projects	$ 1,698
Employment Security Administration	2,233	Sewer System Fund	175
Federally Aided Education Program	9,599	District Potable Water Fund	4,962
Air & Water Pollution Control	7,143	Paternity And Child Support	11,618
Virgin Islands Planning Board Projects	3,000	District Street Light Fund	20,915
Highway Safety	4,600	Virgin Islands Law Enforcement	4,435
Virgin Islands Energy Office	3,655	Forensic Science	74
Virgin Islands National Guard Federal and State Agreement	2,760	Vocational Rehabilitation	1,848
Food Stamp Welfare	2,434	Hurricane Hugo Insurance Claims	3,908
Federal Programs/Department Conservation	4,006	Virgin Islands Army National Guard	2,266
Federal Aided Community Action Agency	187	Emergency Drought Relief	156
Commission On Aging	50	Outdoor Recreation Program	32
Elementary/Secondary Education	19	Narcotics Strike Force Forfeiture	1
Job Training Partnership Act Of 1983-1984	8,614	Small Business Development Administration Managerial And Technical Assistance	8
Civil Defense Protection	849	Juvenile Detention Center Fund Non-Lapsing	14
Health Information Council Assistance	18	Natural Resource Reclamation	2,205
Drug Education Training Program	123	Section 12 Bond Proceeds	24,547
Federal Health Program Not on Federal Letter of Credit System	489	Road Fund	6,330
Boating Safety Program	584	Major Repair And Improvement	58
Fish and Game	309	Fishery and Wildlife Projects	35
		Net fund deficit	$ 136,529

Proprietary Funds

Frederiksted Small Business Fund	$ 164
Altona Community Development Fund	3
Housing Construction Revolving	7,653
Emergency Housing Fund	82
Virgin Islands ID Registration Fund	28
Virgin Islands Elections Fund	241
Consumer Protection Fund	200
Government Insurance Fund	40,465
Virgin Islands Housing Finance Authority	2,898
Homestead and Home Revolving Fund	344
Net fund deficit	$ 52,078

18. Subsequent Events

Primary Government

The Government is making significant progress towards restoring its facilities which were damaged by Hurricanes Irma and Maria in September 2017. The Government continues the process of tabulating the associated costs and expenses with respect to remediation, clean-up, mitigation, and the restoration of services.

In an effort to close potential shortfalls and to serve returning citizens, the Government continues to work closely with federal agencies, such as FEMA, HUD, SBA, etc. to maximize its recovery from all available sources, subject to any sublimits and retentions.

(a) Federal Recovery Assistance

Immediately following the hurricanes of 2017, the federal government acted to provide relief to the U.S. Virgin Islands through legislation and supplemental appropriations for disaster recovery assistance.

The *Disaster Tax Relief and Airport and Airway Extension Act of 2017* provided new tax credits to employers in federal disaster areas, allowed residents to take qualified distributions from retirement plans, and provided special rules in the determination of deductible casualty losses. The legislation was intended to be revenue-neutral to the U.S. Virgin Islands, and the Secretary of the Treasury committed within the Act to reimburse the Government an amount equal to the loss in revenue the Territory would experience due to the passage of the Act. The Virgin Islands Bureau of Internal Revenue is negotiating with the Internal Revenue Service for the legislated reimbursement related to this Act.

On February 9, 2018, the *Bipartisan Budget Act of 2018* was signed which provided $89.3 billion in additional supplemental appropriations for communities impacted by the 2017 hurricanes and wildfires. Included in this law are specific relief provisions to repair local and federal facilities in the U.S. Virgin Islands.

Through September 2019, federal assistance awarded to the Territory included $87.0 million in FEMA Individual Assistance grants, $1.8 billion in FEMA Public Assistance grants, $462.0 million in FEMA Hazard Mitigation grants, and $1.9 billion in Community Development Block Grants for a total of $4.2 billion dollars. Other federal grants awarded by various federal agencies amounted to $99.0 million, for a total of approximately $4.3 billion.

(b) Federal Loans

The Government has also participated in FEMA's Community Disaster Loan (CDL) program. As of September 2019, the Government has received $145.0 million through the CDL program.

(c) Insurance Recoveries and Private Donations

The Government insures all of its properties for risks of direct physical loss or damage including earthquake, windstorm, flood, sea wave, and storm surge and was able to secure advance funding for some of the needed repairs. Windstorm limits were $60.0 million per occurrence and the Government received $120.0 million for the two hurricanes. Of the insurance proceeds received, $91.4 million were designated for the PG and $18.5 million for various component units.

The Territory has also received sizable amounts in private donations which are being administered by the Community Foundation of the Virgin Islands, a 501(c)(3) nonprofit tasked by the Government to receive and distribute private donations for recovery efforts.

(d) Collection of Excise Tax

In September 2018, the U.S. District Judge issued an order enjoining the Government from collecting an excise tax. The order follows a ruling that the way the excise tax was administered in the Territory violated the Commerce Clause of the U.S. Constitution. The order prohibits the Government from levying excise tax, a tax historically brought against goods imported in the Territory, until the District Court Judge signs off on a new method of collection. To address this, the Virgin Islands Bureau of Internal Revenue is working with the Attorney General to submit all the required documents to lift the order.

(e) Other Financing and Payments

In December 2018, Limetree obtained $1.25 billion in financing to reopen the former HOVENSA oil refinery operation on the island of St. Croix. As part of the financing agreement, the Government received $40.0 million in short-term financing and a $30.0 million payment for the 130 housing units, vocational school, and community center located at the facility.

Component Units

(a) Virgin Islands Public Finance Authority

In November 2017, PFA engaged the services of two international firms, to assist with the administration and management of recovery funds. The firms are charged with providing oversight and direction of the disaster emergency response and to execute all necessary documents on behalf of the Territory.

In August 2018, PFA received a grant of $3.0 million from the Department of the Interior to create and fund an Office of Disaster Recovery to provide financial management and coordination of disaster relief funds.

(b) Virgin Islands Water and Power Authority

Starting in December 2017, WAPA began working with FEMA to request mitigation funding to permanently strengthen the electrical distribution system. Funding under the Hazard Mitigation Grant Program was initially being implemented on a 75/25 cost-share basis of the approved costs; however, on May 18, 2018, the President of the United States approved the cost-share formula in the United States Virgin Islands to 90/10.

To date, FEMA has approved, and WAPA is eligible to receive, approximately $625.0 million in mitigation funding. Of the $625.0 million that FEMA has approved, $480.0 million is for underground and submarine transmission and distribution and drops directly to customer meters. WAPA expects the local match will be paid from U.S. Department of Housing and Urban Development's Community Development Block Grants.

The Public Assistance Grant Program administered by FEMA provides federal support to include assistance for debris removal, life-saving emergency protective measures, and the repair, replacement, or restoration of disaster-damaged facilities. As of October 1, 2018, WAPA has been approved for approximately $481.5 million in grant funding and has received $413.0 million of the award based upon a reimbursement process.

Furthermore, in order to fund its working capital needs in the aftermath of the hurricanes, WAPA obtained $31.0 million under the CDL program administered by FEMA. This loan was originally issued under the Electric System, subordinate to all existing Electric System indebtedness including outstanding bonds, notes, and bank facilities.

In March 2018, WAPA entered into another loan for $44.0 million and refinanced the existing $31.0 million for a combined loan of $75.0 million, secured now as a first lien of the Water System's revenues. The proceeds of these loans were used to provide working capital mostly for fuel invoices, payroll, and other critical operating expenses.

In August 2018, WAPA closed on an additional allocation of the CDL program of up to $16.0 million. This loan is structured as a Senior Electric System Bond Anticipation Note which will convert to Senior Electric System Bonds upon the delivery of a consulting engineer's report. However, on November 14, 2018, the Authority adopted the Ninth Supplementary Bond Resolution, which authorized the issuance of its Electric System Revenue Bond Anticipation Notes, Series 2018C in a principal amount to include, among other things, a CDL allocation of $19.5 million approved by FEMA, which amount includes $16.0 million to refund the Series 2018A Notes and $3.5 million of additional CDL allocation to be subsequently drawn upon by WAPA (the Series 2018C Senior Notes).

The Series 2018A Senior Notes are expected to be exchanged by FEMA for the Series 2018C Senior Notes, which will mature on July 1, 2021.

As the maturity date of the Series 2016A Subordinated Bond Anticipation Notes (BAN) approached in the aftermath of Hurricanes Irma and Maria, WAPA decided to reissue another short-term note to keep rates low until a long-term financing option became available. Accordingly, on November 14, 2018, WAPA and the beneficial owners of the Series 2016A Subordinated BANs entered into an agreement to extend the original maturity date of the Series to no later than December 7, 2018.

Further, on November 14, 2018, WAPA's Board authorized the issuance of the 2018B Senior BANs. WAPA anticipates refinancing the Series 2016A Subordinated BANs with its Series 2018B Senior BANs, in the principal amount of $33.9 million. The Series 2018B BANs will mature on July 1, 2020.

As of September 2019, WAPA received approximately $26.0 million from the Government as a partial payment for outstanding utility bills.

(c) Virgin Islands Port Authority

Rebuilding the air and seaports has taken precedence over other activities. The Henry E. Rohlsen Airport in St. Croix reopened to commercial traffic on October 5, 2017, and overall flights to the Territory have been steadily increasing. The first ship to the St. Thomas ports since the storms was welcomed back on November 10, 2017, and the port in St. Croix welcomed back its first ship, on November 15, 2017. In January 2018, the Authority engaged the services of a construction management and design-build firm to provide engineering and construction management services for the repairs of the damaged properties. To date, approximately $80.0 million in insurance recoveries has been received.

(d) Virgin Islands Government Hospital and Health Facilities Corporation

In January 2018, the Schneider Regional Medical Center received authorization for a $28.0 million CDL. As of September 2019, $15.9 million had been drawn down.

As of September 2019, the Government Juan F. Luis Hospital & Medical Center received authorization for a $40.0 million CDL. As of September 2019, $13.0 million had been drawn down.

(e) West Indian Company

In June 2018, WICO, in coordination with VIPA, applied for a permit to dredge 250,000 cubic yards which will be removed from the channel and turn basin and another 40,000 cubic yards will be removed from WICO’s berth area, to accommodate larger cruise ships.

The PG has committed to funding $23.0 million for this project from the Department of Housing and Urban Development’s Community Development Block Grant - Disaster Recovery Funds.

Also in June 2018, the Legislature of the Virgin Islands passed Act 8053 authorizing the transfer of a property owned by WICO to the PG for use as a public decorative arts museum. This transfer is part of a negotiated settlement with WICO for unpaid payments in lieu of taxes (PILOT) due to the PG from prior years. WICO will be responsible for paying the costs of transferring and converting the property to a museum, as well as the annual maintenance for the property.

(f) Other Component Units

Various components units insure all of their properties and were able to secure advance funding for some of the needed repairs of the damages caused by Hurricanes Irma and Maria.

Management’s Evaluation

While inflows of Federal and private funds continue to bolster the reconstruction activity, the eventual amount and timing for receipt of such funds cannot be predicted at this time.

Management has evaluated events and transactions occurring after September 30, 2017, the statement of net position date, and through September 30, 2019, the date the financial statements were available to be issued and noted that there have been no additional events or transactions which would require adjustments to or disclosure in the Government’s financial statements for the year ended September 30, 2017.

Required Supplementary Information

Postemployment Benefits Other Than Pensions

Actuarial valuation Date	(a) Actuarial value of Assets	(b) Unfunded actuarial accrued liability (UAAL)	(c) Actuarial Accrued Liability (a)+(b)	(d) Funded Ratio (a)/(c)	(e) Annual covered payroll	UAAL as a percentage of covered payroll (b)/(e)
10/1/2007	$ –	$ 976,455,000	$ 976,455,000	–	N/A	N/A
10/1/2009	$ –	$ 1,069,562,000	$ 1,069,562,000	–	$ 418,467,000	255.59%
10/1/2011	$ –	$ 1,133,327,000	$ 1,133,327,000	–	$ 403,389,000	280.95%
10/1/2013	$ –	$ 982,484,000	$ 982,484,000	–	$ 298,873,000	240.55%
10/1/2015	$ –	$ 1,283,144,000	$ 1,283,144,000	–	$ 408,063,000	314.45%

Additional Note Disclosure - Annual OPEB Cost and Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2008	$ 78,185,000	40.36%	$ 46,629,000
9/30/2009	$ 82,004,000	42.34%	$ 93,195,000
9/30/2010	$ 85,946,000	42.89%	$ 143,002,000
9/30/2011	$ 89,962,000	35.06%	$ 201,423,000
9/30/2012	$ 80,322,000	45.65%	$ 245,079,000
9/30/2013	$ 71,176,000	43.95%	$ 284,974,000
9/30/2014	$ 65,247,000	47.77%	$ 319,056,000
9/30/2015	$ 67,713,000	43.63%	$ 357,224,000
9/30/2016	$ 90,056,000	34.04%	$ 416,623,000
9/30/2017	$ 93,741,000	35.12%	$ 477,438,000

Government of the United States Virgin Islands

Schedule of Net Pension Liability

September 30, (in thousands)	2017	2016	2015
Primary Government's proportion of the NPL	**76.4171%**	75.2916%	75.2803%
Primary Government's proportionate share of the NPL	**$ 3,535,517**	$ 3,065,617	$ 2,323,163
Primary Government's covered-employee payroll	**$ 300,909**	$ 277,091	$ 267,698
Primary Government's proportionate share of the NPL as a percentage of its covered-employee payroll	**1,175%**	1,106%	868%
Plan fiduciary net position as a percentage of the total pension liability	**16.54%**	19.58%	27.26%

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. The amounts presented for each fiscal year are as of the measurement date (September 30 of the previous year).

Government of the United States Virgin Islands

Schedule of Contributions

September 30, (in thousands)	**2017**	2016	2015
Actuarially required contributions of the Primary Government	**$ 191,481**	$ 186,089	$ 150,628
Contributions in relation to the statutorily required contributions	**61,759**	68,291	64,357
Contribution deficiency (excess)	**$ 129,722**	$ 117,798	$ 86,271
Primary Government covered-employee payroll	**$ 307,132**	$ 300,909	$ 277,091
Contributions as a percentage of covered-employee payroll	**20.11%**	22.69%	23.23%

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. The amounts presented for each fiscal year are as of the latest fiscal year.

Government of the United States Virgin Islands

Schedule of Revenues and Expenditures – Budget and Actual
Budgetary Basis – General Fund

(in thousands)

Year Ended September 30, 2017	Original Budget	Revised Budget	Actual	Variance
Revenues				
Taxes	$ 662,070	$ 662,070	$ 548,500	$ (113,570)
Federal grants and contributions	-	-	10,523	10,523
Charges for services	76,098	76,098	9,390	(66,708)
Interest and other	111,974	111,974	32,423	(79,551)
Total revenues	850,142	850,142	600,836	(249,306)
Expenditures				
Current:				
General government	508,574	508,324	519,194	(10,870)
Public safety	131,539	131,539	57,169	74,370
Health	42,101	35,101	24,534	10,567
Public housing and welfare	80,542	80,542	58,495	22,047
Education	175,900	174,150	170,284	3,866
Transportation and communication	28,049	28,049	17,425	10,624
Culture and recreation	16,163	16,163	5,475	10,688
Debt service:				
Principal	-	-	1,862	(1,862)
Interest	-	-	1,158	(1,158)
Loan issuance costs	-	-	433	(433)
Total expenditures	982,868	973,868	856,029	117,839
Deficiency of revenues over expenditures	(132,726)	(123,726)	(255,193)	(131,467)
Other financing sources (uses)				
Loans issued	-	-	20,000	20,000
New resource initiative	121,700	121,700	-	(121,700)
Transfers from other funds	51,100	51,100	93,648	42,548
Transfer to other funds	(1,469)	(1,469)	12,046	13,515
Total other financing sources (uses), net	171,331	171,331	125,694	(45,637)
Excess (deficiency) of revenues and net other financing sources over expenditures	$ 38,605	$ 47,605	$ (129,499)	$ (177,104)

See accompanying notes to the Schedule.

1. Budgetary Process and Control

The V.I. Code requires the Governor to submit an annual balanced executive budget to be adopted by the Legislature for the ensuing fiscal year. The Governor is required by law to submit to the Legislature the annual balanced executive budget no later than May 30. The annual balanced executive budget is prepared on a GAAP basis, except for encumbrances, which are reported as expenditures for budget reporting purposes, by the Virgin Islands Office of Management and Budget (OMB) working in conjunction with other Government offices and agencies. If the annual executive budget has not been approved before the commencement of any fiscal year, then the appropriations for the preceding fiscal year, insofar as they may be applicable, are automatically deemed re-appropriated item by item. The annual balanced executive budget, which includes those funds of the Government subject to appropriation pursuant to law, is composed of all proposed expenditures and estimated revenue for the Government. The Legislature enacts the annual executive budget through passage of lump-sum appropriations for each department. The Legislature may add, change, or delete any items in the annual executive budget proposed by the Governor. Upon passage by the Legislature, the annual executive budget is submitted to the Governor, who may veto the budget partially or in its entirety and return it to the Legislature with his objections. A veto by the Governor can be overridden only by a two-thirds majority of all members of the Legislature. The Legislature is obligated by law to pass a final annual executive budget no later than September 30, the last day of the fiscal year. Supplemental budgetary appropriations bills that are signed into law may be created during the year without the identification of a specific revenue source to finance them. In August 1999, the Legislature enacted the Financial Accountability Act (Act No. 6289). The purpose of the Financial Accountability Act is to require by law that the budget of the Government be balanced each year, and the appropriations in each fiscal year not exceed a verifiable revenue source.

Once the budget has been enacted, fiscal control over expenditures made pursuant thereto is exercised by the Governor through the Director of OMB. During any fiscal year in which the resources available to the Government are not sufficient to cover the appropriations approved for such year, the Governor, through the Director of OMB, may take administrative measures to reduce expenditures. The Governor may also make recommendations to the Legislature for new taxes or any other necessary action to meet the estimated deficiency.

Budgetary control is exercised at the department level through an allotment process. Encumbrances and expenditures cannot exceed total allotment amounts. The Government's department heads may make transfers of appropriations within the department. Appropriation transfers between departments and supplemental appropriations require executive and legislative branch approval. Unencumbered and unexpended appropriations, not designated, lapse at fiscal year-end. Also, encumbrances are established at fiscal year-end to pay certain expenditures for travel and utility costs payable against current year appropriation authority, but to be expended in the subsequent year.

2. Budget/GAAP Reconciliation

The following schedule presents a comparison of the general fund legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of timing and entity difference of the excess (deficiency) of revenue and net other financing sources over expenditures for the year ended September 30, 2017, is presented below (expressed in thousands):

Deficiency of revenues and net other financing sources over expenditures	$ (177,104)
Entity difference – excess of revenues and net other financing over expenditures – activities with budgets not legally adopted	42,349
Deficiency of revenues and net other financing sources over expenditures – GAAP basis (net change in fund balance)	$ (134,755)

Controls over spending in special revenue funds and non-appropriated funds are maintained at the Department of Finance by use of budgets and available resources (revenues). The Government makes appropriations to authorize expenditures for various capital projects. Budgets for capital projects normally remain available until completion of the project unless modified or rescinded.